



COMMONWEALTH OF AUSTRALIA

# SENATE

## Official Committee Hansard

### FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

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

**FRIDAY, 6 FEBRUARY 1998**

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**SENATE**

**Friday, 6 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

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**

**BLACKSTOCK, Dr David John, Senior Researcher, Premier's Office, Terrace Towers,  
178 North Terrace, Adelaide, South Australia 5000 . . . . . 635**

**BORA, Mr Bijit, Lecturer in Economics, Flinders University of South Australia, Sturt  
Road, Bedford Park, South Australia 5042 . . . . . 603**

**FINDLAY, Dr Christopher Charles, Associate Professor Economics, University of  
Adelaide, Adelaide, South Australia 5000 . . . . . 603**

**FRASER, Mr Simon, Acting Manager, Trade Policy, Department of Industry and  
Trade, 178 North Terrace, Adelaide, South Australia 5000 . . . . . 635**

**HALLION, Mr James Vincent, Executive Director, Industry Policy and Infrastructure,  
Department of Industry and Trade, 178 North Terrace, Adelaide, South Australia  
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**LAU, Mr Casey, Senior Manager, Office of Asian Business, Level 15 State  
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**LEAVER, Mr Richard Lawrence, 24A Shipster Street, Torrensville, South Australia  
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Rundle Mall, Adelaide, South Australia 5000 ..... 652**

**Committee met at 9.45 a.m.**

**BORA, Mr Bijit, Lecturer in Economics, Flinders University of South Australia, Sturt Road, Bedford Park, South Australia 5042**

**FINDLAY, Dr Christopher Charles, Associate Professor Economics, University of Adelaide, Adelaide, South Australia 5000**

**CHAIR**—Welcome to this hearing of the Senate Foreign Affairs, Defence and Trade References Committee which is inquiring into the matter of Australia and APEC. Do you have any comments to make on the capacity in which you appear?

**Dr Findlay**—I have been working on trade issues for some time. I am a member of the Australian Pacific Economic Cooperation Committee and in that capacity I welcome this opportunity to talk to you about APEC.

**Mr Bora**—I spend my research time looking at foreign investment and trade issues and over the last four or five years have been looking at regional trade groupings. I too am a member of the Australian National Committee for Pacific Economic Cooperation and over the last three to four years have been representing PECC at APEC trade meetings, in the last two trade ministers meetings in Christchurch and in Montreal.

**CHAIR**—Thank you. 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. Although a question may be addressed to a particular witness, the other witnesses are welcome to add their comments on that matter, so it is a fairly free-flowing discussion. At the end of the session would you just wait behind for a couple of minutes for the purpose of Hansard so that they can check any of the special language that you may well have used, acronyms and so on. I now invite you to make an opening statement and then we will proceed with questions.

**Dr Findlay**—Perhaps I could start by telling you about a meeting which the Australian Pacific Economic Cooperation Committee had in Melbourne recently. Alongside the meeting of the committee we organised a luncheon. This was before the Vancouver meetings of APEC. We had a group of business people come along and as they came into the room we asked them some questions about what they thought APEC's priorities ought to be, and what APEC was up to. There were not too many people there, but it was quite interesting all the same.

We gave them a choice of three; they identified three areas of importance and ranked them. Most of them focused on market access questions—in other words, liberalisation issues—and a huge range of sectors, some of them quite broad. They would put in the box 'free trade'. Others would put something very specific like 'cars' or 'beef' or something like that. There was a big focus on market access. Some focused on the second leg of APEC, on facilitation—mainly standards and other rules—but nothing at all on what I see as the important third leg of APEC, which is the economic and technical cooperation program. I think that is something we have to work on in the next cycle of meetings, including PECC meetings, to explain why the Ecotech program—as it is called in shorthand terms; economic

and technical cooperation—is an important complement to all the other things that are going on in APEC. Perhaps that is something you would like to talk more about today.

I see some of APEC's advantages, compared to other multilateral organisations, being the regional leverage that it gives in higher level bodies like the WTO, its capacity to implement commitments that people reach in the WTO, or to try and get out in front of what is happening in the WTO, and doing all those things is facilitated by the wider range of instruments that it has available, like the economic and technological cooperation program, like facilitation, and by the very specific target and commitments that people in APEC are making about moving to free and open trade and investment in the region. I am flagging the complementarity between all the elements of APEC and the emphasis that is worth giving on Ecotech.

There are perhaps two other broad areas that I would like to bring to your attention. The performance of the APEC process in the last 12 months is something that we are working on in the PECC system at the moment. There is a lot of empirical work going on about how people are going in, fulfilling their commitments, and what new commitments they have made. Perhaps that is something else that you would like to talk about today. We did write an assessment of the MAPA—the Manila Action Plan for APEC—and some interesting things came out of that.

I thought the Vancouver outcome was significant for its commitment on early voluntary sector liberalisation program. I thought it was significant because of the progress that has been made on the facilitation agenda, and I thought it was significant because of the quite extensive discussion that came out of those meetings about the relationship between APEC and the WTO. But again, on economic and technical cooperation, I think there is a lot of work still to be done.

A third area which I would invite you to talk more about today is the role of what you could call second-track organisations, like the PECC, the one that we are involved in. If you do not know much about the PECC, it is a tripartite organisation which has academics, officials and business people in it. All the APEC countries are PECC members and there are a few more besides. Each member has a national committee which organises its input into the process, and each national committee, working alone or in conjunction with others, is responsible for a set of work activities.

The important thing about the PECC is that it has observer status in APEC, so that, as Bijit mentioned just now, PECC people can attend meetings of officials, ministerial meetings, and make statements. It is a very important way for the research community, and also the business community, to get ideas into the APEC process.

We see this sort of work as very important in coming up with ideas, helping APEC to find its priorities, and providing some research into the process. We are, however, constrained by the resources that are available to us, including the lack of funding from the Australian government. That is something that we would like to talk to you about today, so I would draw those areas to your attention.

**Mr Bora**—Thanks. Chris and I have been working together on regional trade issues for quite some time, so I would endorse all of Christopher's comments and essentially pick up a few of the other ones. On APEC, the interesting thing is that my experience with APEC began in about 1992 or 1993, and since then the evolution has been extraordinary. At that time we had the ad hoc regional group on trade liberalisation. The members were not even allowed to talk about issues on liberalisation at all. They certainly were not about to have a specialised or a formal committee. But we now have an annual notification process of liberalisation commitments. So during that time, having attended CTI meetings and senior officials meetings and trade ministers meetings, the evolution has been extraordinary.

A key element, though—and this comes out of a book that Christopher and I have put together, which was published last year, on looking at regional trade agreements—is that there is this huge proliferation of engagements between countries on trade and investment issues. At the very formal level you have got formal trade agreements such as the North American Free Trade Agreement, and others; at the informal level you can have mutual memorandums of understanding. But a key element of APEC is the fact that it stayed away from that formal structure, and it has actually made considerable progress. Of course, the big issue is: what is the counterfactual? Where would the world trading system be today had APEC not existed? There are a number of critics there.

Like Christopher, I think a key element of assessing APEC and its importance to Australia and the trading system is the fact that it does a number of things which I think are indisputable. First, it supported the WTO; it complements the WTO. It complemented the GATT up until 1995 when the WTO took over. How does it do that? In the first instance you cannot ignore the fact that you have got leaders meeting from the largest trading countries and much of what is discussed there is not necessarily focused specifically on APEC. So APEC meetings allow for this conduit or venue to ensure that multilateral issues get an airing across a broad number of countries and not isolated to the Quad; secondly, in issues that are not part of the WTO, issues in which Australia has an interest in pursuing in the WTO. Specifically, the latest priorities have been investment and competition policy. These are two very difficult areas, but you can work on those two areas within APEC. Australia has done very well in terms of advancing those issues, and specifically in the area of investment it is considerably ahead of the WTO.

The second area is the fact of what APEC has done, or Australia's commitment to APEC and other countries in APEC. We have seen that in two instances in Australia and in the region: the focus on liberalisation and market-opening commitments. The two examples are, in the first case, the tariff reductions in Australia. In South Australia we continually hear how Premier Olsen won the battle on tariffs, but the language that we have been reading about in the media has been that it is a pause; it is not a freeze. A pause is a suggestion that the pace of liberalisation will continue; there is just a momentary lapse or a temporary lapse in which the tariffs will not go down. That is a big difference in mentality, in terms of the political view on liberalisation, to use that language.

The second instance is the recent experience in the region, or the financial crisis in the region, and the consensus there amongst most of the political leaders is that this is not a moment to turn inwards but a moment to continue the pace of liberalisation. Again, the first

meeting of APEC senior officials will be in two weeks time in Penang and you have got this standing venue ready for discussion of these issues.

There are also a host of other issues which APEC is going to need to address. That basically has to do with its breadth. Again, since 1992, although it has moved forward in the area of trade and investment liberalisation and facilitation, it has also moved into a number of other areas. The first thing is the expansion in membership, so we are now—as of November—up to 21, and we have got Peru, Vietnam and Russia included.

This is going to change very much the focus and to some extent the temperament and the pace of the meetings. The way they have done it I think is very good by allowing these countries a year as an observer, but Russia and Vietnam need to post their individual action plans within two years time and it is not really clear what kind of capacity they have in order to meet these commitments in such a short time—capacity in terms of depth in the bureaucracy and education on APEC. It is not a simple thing of pulling in Geneva bureaucrats.

The second thing was Canada's clear attempt last year to broaden APEC's agenda, to bring in gender, to bring in youth, to bring in a number of other issues. We have gotten to the situation where last year at meetings they were selling APEC hats and APEC T-shirts and so on. So APEC has now become an industry and you have got a whole pile of issues which are essentially coming under this APEC umbrella.

The third issue is something which I have spent the last two years looking at, and that is the issue of non-members. There are a number of countries in the region that have considerable interests in APEC but they are characterised in two ways. One is that they are considered too small, and that is typically the South Pacific countries and most of the South Asian countries. And, second, they have a number of problems with their bureaucracy in terms of education and human capital.

My work on non-members in the South Pacific and also with AusPECC shows that they are extremely interested in APEC. They desperately want to understand what is going on. To a large extent they are very threatened by APEC and fearful of what is going on, because they are not a member. Especially now that it has put a moratorium of 10 years on non-members, I think over the next two to three years APEC is going to have to do an education job on non-members.

That brings us to the last point, which is where Christopher started off, and that is that looking in the context of APEC's importance and interest to Australia, the selling or the education job has to be to Australian business. Our sense is that to a large extent Australian businesses know and understand the importance of APEC, but there still does not seem to be a huge depth of understanding of the implications of APEC. There is very much a clear need on their part for quick, short-term solutions. They want things done, and done now.

APEC has a whole host of initiatives, everything from the tariff database to customs, but they are a number of things which will not come on line for quite some time. So this notion of the importance and implications of APEC to Australia still has to come down to letting

Australian business know that there is this initiative out there which is meant to make it easier for them to make money in Australia's important markets.

**CHAIR**—Thank you. Before we proceed with questions, could you just give us a bit more of an idea of AusPECC and the funding of AusPECC. Does it have a staff? Is it just a loose structure? You did say that there was a need for government funding there to assist.

**Dr Findlay**—Let me explain. We are both members of the committee called the Australia Pacific Economic Cooperation Committee—AusPECC. It is chaired by a private sector person. It has been ever since the very first chairman, who was an academic, at the set-up stage. It has roughly equal numbers of private sector people, academics and officials on it. Its membership is appointed by the Minister for Trade. He tries to come once a year to talk to the committee about what is happening in the region.

Its brief is to advise him on Australia's interests in regional economic affairs, in particular APEC. It has about 20 or so members. We are trying to tighten up the way that it proceeds by having a smaller management group which is going to handle the committee's day-to-day affairs and make sure the bulk of the meeting for the whole membership is spent talking about substantial issues. In fact the way that I would like to proceed—and this is one thing we are going to be talking about at our next meeting—is to stick with the core management group and have a much wider forum; basically have it like an APEC business forum which people can join, and the minister can stamp as a vehicle for giving him advice and input on APEC issues in particular. So we need to move in that direction, I think.

The way that it is managed is that we have had a secretariat which operates out of the Australian National University. The office itself is in the Australia Japan Research Centre at the ANU. There is one staff person there. Just in the last two years we have combined the secretariats of AusPECC and the Pacific Basin Economic Council, or PBEC, which is a straight business organisation, so that we have a joint secretariat now. For a while we had the same chairman, which was a very good arrangement, so that AusPECC met in one half of the day and PBEC met in the other half of the day, and we would try to organise some event in the middle. So we are trying to economise on the secretariat costs in that way, and to deepen our relationship with the business sector at the same time.

We want to continue that. However, the issue is funding. At its inception there was a grant of money which came from Foreign Affairs and Trade to support the secretariat functions and to provide a bit of support for, in particular, participants who could not easily organise their own funding to attend meetings. So we were operating on a budget of about \$100,000-plus a year for those purposes. That covered office infrastructure, staff time, travel, and participation in the key PECC management meetings, and the contribution to what is called the PECC central fund which PECC itself uses to support its regional activities. So that is like the club membership fee of the whole organisation.

Foreign Affairs are committed to continuing, as we understand it, the membership fee, the payment to the central fund, but they have told us as from next year there is going to be no funding at all for the AusPECC secretariat. We thought that was an extraordinary signal to send out to the region about their degree of interest in regional economic cooperation, and APEC in particular. It has made it very difficult for us to subsequently go to the private

sector, which we had been doing for years, and say, 'We've got this core funding. There's a signal here from the government that it's interested in this process; it's got ministerial endorsement. But we need your support for particular activities of interest to your sector.' For instance, the minerals people traditionally sponsored minerals affairs, and so on.

Without that component of funding from the government, and thereby an indication of the significance to the process that we are involved in, it makes it very difficult to be credible when you go to the private sector and ask for support because the officials' response is to say, 'Well, if it's that important the private sector will fund it.' Yes, the private sector will provide funding for these things—there's no doubt about that—but they need some indication that this is a significant channel for influence and advice, and we are not getting that through this withdrawal of funding.

I do have to say that the officials are advising us that they welcome proposals for particular projects for which they will consider funding. We have been working with them on that front. We have done one project with them already, which was to produce these two reports, which I will leave with you—studies of the benefits of liberalisation in APEC. We went off together with Foreign Affairs and Trade to a fund that is in AusAID to fund that particular project.

**CHAIR**—Just before you proceed, can we identify those for the record. The two reports are *Switching on—the effects of liberalisation in Asia's electronics industry—studies in APEC liberalisation*, and the other is *Pulling the threads together—the effects of liberalisation in Asia's textile and clothing industries—studies in APEC liberalisation*.

**Dr Findlay**—Yes. We are talking to the department at the moment about a project on the car industry and there are other opportunities of that type. That is fine, and we welcome that support. But the fact is that we still need to be able to have funds to manage the system. You need the infrastructure, you need the office costs, the post box function, the coordination, and the staff time to manage meetings. It is going to be difficult to provide that sort of funding out of these projects because the budget process is transparent and very tight and it is not possible to accumulate funds by doing this sort of work.

So in the process of them shifting to this alternative funding formula, it is going to make it very difficult for us to keep up the overall infrastructure, and that is a real struggle for us at the moment. We are also trying to use this business sector relationship with PBEC to see if we can use that as a mechanism for support. But again, as Bijit indicated, the private sector guys are very hard-nosed. They will support things but they are also very hard-nosed, so if they are going to say, 'Yes, we'll put resources into this,' they want 'payback, timetable, benefits to me', and that is absolutely fair enough, and on that basis we can go to them and say 'Let's do a project on financial market reform in East Asia. It's a critical time to do something like that,' and we could well get support for that. But if you go along and say, 'This is a community process; we're all benefiting from this, and we need some infrastructure funding,' as you would expect it is a bit more difficult to raise that sort of support.

I have talked about the committee, the central fund, the infrastructure funding in Australia, and the relationship with the business sector. I will perhaps speak just a little bit more on our relationship with the rest of PECC.

**CHAIR**—Before you do, because I think that is important, could you just give us some idea of your experience in the past of getting funds out of the private sector towards helping your central infrastructural costs. Have they donated funds?

**Dr Findlay**—No, not for those central, infrastructure costs. The minerals sector in Australia has been a long-time supporter of the work on minerals and energy which Australia was responsible for. That was one of our key responsibilities. They provided sponsorship for meetings. They would provide time to attend meetings, to plan events, and they would give suggestions about issues. That was a very vibrant group with significant support. In other ways the business sector contributes by paying the costs for their staff to go to meetings, trade policy included.

**Mr Bora**—I was just going to say that, while they would not fund the recurrent funding, the infrastructure costs, they essentially were paying the marginal costs in activities which were in their direct interests. So, for example, the Minerals and Energy Forum, as Chris was saying, was quite vibrant because there were a number of private sector individuals and companies—where that was in their interests. I have been handling trade policy for the last four or five years and we have always had quite a strong business interest in issues of trade policy.

Now, certainly that has waned over the last little while from general strategic issues of trade policy to specific things. When we had a specific project or there was a theme—for example, the last PECC trade policy forum was in Santiago on Latin American integration and Asian Pacific integration—there were a number of private sector people for whom this is of interest, so they funded their own travel, their own costs, and we provided them with the briefing. We also three years ago had quite a significant project on trade and the environment where we had four or five private sector people involved.

They actually funded the project. We got Kym Anderson and Jane Drake-Brockman to do the drafting of it. We had three meetings to discuss the draft and so on. Again, this is this issue that the time horizon for business is very short and, if you have got the infrastructure in place and you can illustrate to them the benefit of the infrastructure in particular projects, they will certainly fund that.

**CHAIR**—Why has the funding been withdrawn? Have you been given any reason?

**Dr Findlay**—One reason, apart from the overall cutting in the size of budget of the department, is an in-principle decision to fund projects, not to fund programs—if I am using the right language. So, in other words, the funding available for grants to outside bodies has been cut back severely in the department, and we were in that category. So that is why they are coming to us and saying, ‘Come along with specific projects and we’ll see what we can do.’

**Mr Bora**—We have had the significant support of the officials. They are very apologetic about it. It is not that they have cut the funding and walked away.

**Dr Findlay**—No, that is right.

**CHAIR**—No, I was not taking it that it was done in a dispassionate sort of sense.

**Dr Findlay**—No. We have been struggling for a while. We are in a transition year this year. They gave us \$40,000 this year.

**Mr Bora**—The funding was cut this year, for 1 July, with the transition amount of \$40,000, but then next year it is zero.

**Dr Findlay**—It is zip next year.

**CHAIR**—So it is being fairly quickly phased out.

**Mr Bora**—Yes.

**Dr Findlay**—We have got this next six months to figure out a formula for continuing. I should also say that a few years ago Australia actually funded the position of Director-General of the PECC. The central secretariat of the PECC, which is in Singapore, has a number of staffers in it, and the way that is organised at the moment is the individual members send somebody to the secretariat, and when you do that you pay their costs. So we had a gentleman called David Parsons in that role, an Australian, and Foreign Affairs paid for his position. So there is a very strong history of support for the PECC processes and input into APEC from the Australian government, but that has been dramatically reduced in the last 12 months.

**CHAIR**—All right. Would you like go to PECC for us.

**Dr Findlay**—I have mentioned the secretariat and Singapore which handles the communication between all the national committees and organisers for meetings. PECC has a large meeting where all the members get together every 12 or 18 months. The last one was in Chile and the Australian delegation was led by your colleague Senator Brown. Apart from those large meetings there are meetings of all the task forces and forums in PECC and they range across a wide field from science and technology, agriculture, tourism, fisheries, trade policy, human resources. What else? Minerals and energy are now split into components, particularly because of the significance of the energy issues. Those people have their own streams of meetings and each of them interacts with the APEC process. For example, the PECC people who work on energy go along to the APEC working groups on energy, and trade policy people, as Bijit mentioned, go along to the meetings of APEC officials on trade policies. So we feed in the results of this PECC work at the officials level and then we can do it, as Bijit also mentioned, at ministerial level.

With the work itself there is a host of different ways of getting the work done. The main output is reports of the type that you see there. Generally the writing and empirical work is managed by academics. The business people will read, comment, participate in workshops or

discussions on the report. Specific papers are often commissioned and written and then boiled down into summaries and it is usually the summary material that is passed into the APEC process. So through those mechanisms it is a way of business getting some input into what it thinks APEC priorities should be; getting some work done on those issues so APEC can hit the ground running and get out in front of APEC on some things which they find difficult to talk about at the stage of development of the organisation.

Bijit nicely explained how the trade policy people have evolved, and I argue strongly that they have been able to do that because the PECC people have been out there on this parallel track talking about the same issues and feeding it into APEC. So a strategically minded official in the APEC process can pass an issue out, suggest something be done in PECC—even participate themselves directly because officials are members of PECC as well—come along, get something on the agenda and rehearse it in the PECC process.

Air transport, for instance, is something that we have done a fair bit of work on. It is a very sensitive thing to talk about in the APEC process but we have had a number of very successful meetings on that issue and coming up with some specific suggestions for APEC to make progress. So when you are ready you can bring it back in again through the officials, through ministers or through the national committee.

**CHAIR**—So PECC really is the engine of APEC, isn't it?

**Dr Findlay**—That's a delightful way to put it. No, that is the way we think of it.

**Mr Bora**—That is what we think about it.

**CHAIR**—From your description my understanding of it is that it really seems to be the organisation that does the driving.

**Dr Findlay**—The historians of the process actually claim some parenthood as well—that a lot of the PECC precedes APEC and PBEC precedes PECC. There is a host of other regional organisations that precede us too. The mechanisms for APEC to work, the ideas, like the open regionalism principle, were all thrashed around in the PECC process, so we have been running alongside this APEC system for a long time.

**Senator SANDY MACDONALD**—What does PECC stand for?

**Dr Findlay**—PECC is the Pacific Economic Cooperation Council, so AusPECC is the Australian partner. You really drown in acronyms in that business.

**Senator LIGHTFOOT**—Acronyms are designed, we feel, to lock some people out from what you are talking about and it becomes very frustrating.

**Dr Findlay**—Yes.

**Senator LIGHTFOOT**—And when people do not want to admit that they do not understand what the acronym means, they will not ask. You can go through a whole meeting

and talk about a whole range of acronyms; some of them are as long as the Russian alphabet.

**Dr Findlay**—Especially in APEC business. They have layers; there is APEC and then there is HRD and then within HRD there is EDI or something like that.

**CHAIR**—I have two questions before I pass across to my colleagues, because I think you have got a lot to offer this committee. Firstly, there is the attitude of other governments towards their local PECC, so I presume there is a Singapore PECC, a Hong Kong PECC.

**Mr Bora**—Yes, there are 22 members.

**CHAIR**—Yes. I presume that they are funded by their government.

**Mr Bora**—No, there are different models.

**CHAIR**—Can you give us some idea of the models that do apply?

**Mr Bora**—There are the private sector models, which essentially is what AusPECC has now become, where the government will pay the membership fee and then the national committees will fund their activities. That is the US model, a very market-oriented system. But the US PECC committee has done very well out of funding, but they have got a massive base and have done very well in terms of organising a number of high profile events. For example they had an IT summit in late November which had Rupert Murdoch, Bill Clinton, Ramos, people like that, for two days, and in typical American fashion they have got a registration fee and so on. So they did very well.

The Canadian model is a private sector majority kind of funding. The government provides some seed funding which, I think in the Canadian case, is \$40,000 to \$50,000, and the CanPECC is housed under the Asia-Pacific Foundation in Vancouver. Then you have got other models again in the region where governments are extremely proactive.

**CHAIR**—And providing the funding for it.

**Mr Bora**—And providing the funding and personnel. They are actually funding staff positions as well as travel, et cetera.

**Dr Findlay**—A combination model is to run the secretariat out of an institute that might be associated with the foreign affairs ministry and funded by that ministry. That is how it works, I think, in Japan and China, and also in Korea it is in one of the think tanks. It is called the KIEP, Korean Institute for Economic Policy. So these are official research houses, a bit like the Bureau of Agricultural and Resource Economics in Australia, that sort of role.

**CHAIR**—Is this not but a reflection of what happens within those economies though where the whole APEC process is fairly heavily identified with the government, whereas in economies such as ours there is that distancing and a greater independence, even of the bureaucracy, from government in a sense?

**Dr Findlay**—There are Asian models where the business sector does provide the support, and Indonesia is an example of that. But even in those economies like Japan and China they have very effective mechanisms for engaging the business sector to make input into specific projects, for instance. So that part of the model is similar.

**CHAIR**—My last question is the relationship between PECC and ABAC?

**Dr Findlay**—That is an interesting question.

**CHAIR**—It would seem that that is pertinent to this whole issue.

**Dr Findlay**—Good point. I should have mentioned that earlier.

**Mr Bora**—Do we need to spell out what ABAC is?

**CHAIR**—No, we are right on ABAC.

**Senator LIGHTFOOT**—I do not know; there is always a different perspective.

**CHAIR**—Am I going to get questions on it? If I am going to get questions on it I am going to say that I am not that familiar with it, but you can accept the fact I have got a rudimentary understanding of it.

**Senator SANDY MACDONALD**—You might also spell out, while you are doing it at the same time, the relationship between you and the APEC study centre in Melbourne. It has a similar role too.

**Dr Findlay**—Yes. On the ABAC relationship, the three Australian ABAC members are also members of AusPECC. That is the way we tried to build a relationship with them. We saw them as another mechanism for communicating into the processes. Whereas PECC works at the official level and into the ministerial level the ABACers have a mandate from the leaders of APEC. So that is another way into the process. The ABAC participants in Australia have some support from the bureaucracy, but not a lot of mechanisms for getting ideas or getting things done. So we thought we should get them in as members of AusPECC and they can draw on all the resources of the PECC process to help them in their own thinking and report writing.

The relationship deepened last year when one of the subcommittees of ABAC was working on an assessment of the Manila Action Plan, and they actually came to PECC and asked for help. So the PECC people prepared a series of briefing notes for that subcommittee of ABAC on their assessment of the Manila Action Plan. It was based on this booklet, that you might have seen, that we produced on the assessment of the Manila Action Plan, but it not only used that material.

**CHAIR**—Yes, for the purposes of the record I will identify the book as *Perspectives on the Manila Action Plan for APEC* prepared by a number of organisations: the Pacific Economic Cooperation Council, Philippine Institute for Development Studies and the Asia Foundation.

**Dr Findlay**—We then took that material and also did an evaluation of ABAC's recommendations in its 1996 report and the task was to see how well those recommendations had been implemented by APEC over the subsequent time. So we put those two bits of material together and we had a series of meetings; some of our people went along. I went to one meeting. You did not make it to any of those.

**Mr Bora**—No.

**Dr Findlay**—But Bijit wrote some material for them about the investment work that was going on, and they incorporated a lot of that thinking on that assessment into their 1997 report. We did that at basically no charge for ABAC in order to test out and build up the relationship. We are happy to continue that work but our discussions with ABAC now have to be on how we can mobilise the resources to get that work done if they want to continue using the PECC system as a source of input and advice.

**CHAIR**—So are there infrastructural costs there in supporting ABAC?

**Dr Findlay**—Yes, which we absorbed last year but which we can no longer absorb, so we need to talk to the ABAC people about how we are going to pick up that support cost.

**Mr Bora**—There is one element about ABAC—

**CHAIR**—Pardon me, I am just a little bit confused. It seems as if we are running around in circles. ABAC people, as I understand it, are government appointees.

**Dr Findlay**—Yes.

**CHAIR**—It seems as though PECC is a mixture of private sector business people, academics and government people, and it seems to me that we are reducing the amount of support for the PECC side who in turn support ABAC. I just cannot follow this.

**Mr Bora**—I was just going to say that one issue which has been surfacing a number of times over the last three years, which is important in understanding the whole relationship between PECC and APEC, is that the APEC secretariat is purely administrative—it has absolutely no research capacity at all—and hence the people that are there who are seconded from various members simply administer meetings. At the senior officials level when there are APEC issues, not national issues, they are APEC issues. In the OECD if there is an issue they can task the secretariat and there is a research department they have access to, to staff and data, and they can do that. APEC does not, so PECC over the last three to four years has filled that role of providing research expertise through access to academics and its network.

For a specific example, in 1995 in Japan after they had the Bogor declaration in November 1994, for the next ministerial meeting they wanted an assessment of the impediments to trade and investment in the APEC region; how big is this task that APEC faces. But they could not ask anybody to do it, so PECC stepped in and filled that role. The same thing happened with ABAC last year. The leaders asked ABAC to assess the action plans. But ABAC is a group of business guys that go to the meetings and there was nobody

to task and again, as Christopher said, PECC provided that. But without any funding certainly the bulk of the research and the writing and the drafting was done by a number of academics and business people that are commenting on and reading drafts.

There is no funding at all for that. So in this issue on the APEC secretariat of whether or not there should be this research department to fund those roles, PECC has naturally stepped into that, because as one of the official observers people like me and Christopher, and Marie Pangastur in Indonesia, have quite good contact at the very senior official level. We are well known, our research is well known, and hence when there is an issue such as we are now working with the Singaporeans on—an APEC-funded project on early voluntary sectoral liberalisation—they ask PECC to do that.

So this relationship between PECC and ABAC and PECC and APEC stems very much from the comparative advantage that you highlighted of access to business, government and academics, and also the capacity to deliver that research. The pressure will be on again this year because they have the deadline for June—June is when everything needs to be fed in because July and August is when they get it ready for ministers—and come April our faxes will be running hot and heavy.

**CHAIR**—It seems to me that your individual institutions seem to be bearing some of the costs of the whole process. Is that true?

**Dr Findlay**—That is true. That is what happens. Our roles are to teach, to do research and to engage in services in the community, which can include consulting work, but also includes this sort of effort. So the institutions are happy to pick up some of those costs to provide office space and so on.

**CHAIR**—But as I understand it the institutions are finding it more difficult themselves.

**Dr Findlay**—They are finding it more difficult, too.

**CHAIR**—So I am just wondering where the sureties will come from for people such as you where you have an obligation to your provider—the institution—and the pressure is mounting as the APEC agenda continues to snowball. That is what it seems to be doing.

**Dr Findlay**—That is exactly what is happening. As Bijit indicated earlier, the agenda is getting bigger. They are seeking advice on a broader front. I think the issues over the next two years are going to be getting some priorities into it—some very big areas of work—including Ecotech, and that is where mobilising the business sector and academic input can be important. We have got to organise and we will not be able to do that unless we can organise new sources of infrastructure funding for this sort of effort.

**CHAIR**—And the question that Senator Macdonald asked about the interrelationship with the APEC Study Centre?

**Dr Findlay**—The APEC Study Centre—yes, that is an interesting relationship, too. In some countries the PECC people and the APEC Study Centre people are the same. Korea and New Zealand spring to mind.

**Mr Bora**—Yes.

**Dr Findlay**—In other countries they are—

**Mr Bora**—Canada, I think.

**Dr Findlay**—In Canada they are the same?

**Mr Bora**—Yes.

**Dr Findlay**—In other countries they have been made deliberately separate. When the bidding process was on, to get the original support for the APEC study centre, we did, in conjunction with the ANU, put in a bid to make the area around the PECC system at ANU the APEC study centre as well, to get the economies involved, but the government decided to place it in Melbourne and to use the Monash New South Wales system. That has the advantage of drawing in new networks and a new set of ideas, which is fine by us. We have sought to cooperate with them. Alan Oxley, who runs the APEC study centre in Melbourne, actually is the manager of one of our task forces on agricultural products.

**Mr Bora**—Yes, and he sits on the trade policy subcommittee as well.

**Dr Findlay**—And he is a member of the trade policy subcommittee. He has also got interests in other sector areas where he feeds in advice. So we run it in Australia as separate organisations. Sometimes there is an element of competition there which is constructive, but on other occasions we are actually doing joint ventures with each other.

**CHAIR**—But they do not seem to have the funding problems that you have.

**Mr Bora**—I am not sure when it ran out or what has happened, but they are funded from DEETYA, not from Foreign Affairs. That is a separate APEC program that they get funding from. That was preliminary seed funding for three years, so I am not sure where they are at now.

**Dr Findlay**—They have been successful in running particular events, which we can do as well, like a conference on an issue, or producing a product or doing some training program which are the things that I recall they have been involved in. What we are concerned about is not that sort of funding. If we are smart we can define an issue and develop the funding for it. What we are concerned about is the infrastructure system for coordinating that work and maintaining the input into the PECC process and into the APEC process, which we have a much bigger role in and capacity for than they.

The strength of the PECC is its capacity to organise regionally. It has a standing committee which meets regularly; it has a coordinating group which I am about to become the chairman of, which is the committee of people who are managing all these task forces and forums, and those two groups meet every six months. That is the source of our contribution, because we can get things organised across the issues. We can manage the relationship with APEC effectively. The APEC study centres tend to be more nationally focused, and meet in a looser network.

**Senator SANDY MACDONALD**—I will be interested to see the documents that you have tabled. I was going to ask you, before you mentioned the role that you play, just how important it is to have the framework of the undertakings given in the Bogor declaration, and how important it is for politicians to have those outside declarations to drive their own domestic agendas.

**Dr Findlay**—It is critical. I mean, that is the big contribution of this institution, and the especially exciting part about it compared with the WTO is its very specific commitments on an end point and a timetable. As Bijit argued to you earlier, we think that those commitments made a very big difference to the debate in Australia on autos and textiles and clothing.

**Senator SANDY MACDONALD**—What happens when we get closer to the deadlines?

**Dr Findlay**—That is why clearly there is going to be an issue there with some of the difficult sectors and that is why work now on timetables or paths or trajectories for those sectors is very important. The significance, therefore, of the early voluntary sector liberalisation program is that it is starting to get people to think about how we are going to deal with those difficult sectors.

**Mr Bora**—I was invited to Bangkok in September for a two-day seminar on APEC and non-members. There is a book coming out and I think I sent the manuscript to Paul. It was a two-day focus on this issue of non-members in Asia, so there were all the interested parties—Bangladesh, Sri Lanka, India, of course, and so on—and interestingly enough some of the countries that were APEC members actually had very senior people there. China actually had their senior official there for the two days, Malaysia had their two senior trade officials, and so did the Philippines. So it was a very interesting discussion.

On the second day the focus was very much on these countries desperate to become members and it was difficult for me, sitting at the head table, listening to each country tell me for half an hour—each of them—how much they would liberalise, and how Mongolia now only has tariffs on cigarettes and automobiles. There were about nine or 10 countries and it took quite a long time, and in the end I said, ‘This is really good, but why do you need to be a member of APEC? If you’re going to do all those things, why burden yourself with the commitment to going to APEC meetings? I have been to senior officials meetings and, believe me, you aren’t missing much.’

They all responded one by one with the suggestion that being a member of APEC automatically confers credibility; that the fact that they have signed on to the Bogor declaration and that they actually have this end point, that there is something that they are actually seeking to achieve, automatically conferred this credibility to them, because they can say they are working to meet that goal. Of course, come 2008 and 2009 I am pretty sure there will be some issues there, but where our academic research is focused, and certainly a number of the projects that we have been involved in, is that this issue of sequencing is certainly an important one, but let us get the framework down now; let us make sure we know where these impediments are; let us make sure we know how high these impediments are, and then let us keep pushing the politicians to make sure the political will is still high to deliver in 2010 and 2020.

**Senator SANDY MACDONALD**—When you are talking to these officials in Bangkok, they are taking the advantages of trade liberalisation as a given. They are saying, ‘We’ve made all these changes; we’ve done this.’ That is all very well, but how do they explain their position when they get home, because the big test for all of us is to make these changes and carry the majority of the population with us?

**Dr Findlay**—Yes.

**Senator SANDY MACDONALD**—You have got those little booklets there, and they are terrific, but, you know, this is the great debate that we all face. How do you package the question of trade liberalisation? I know you say it is probably the least important but the most understood aspect of what APEC stands for, including trade facilitation and technical and economic cooperation. But, especially coming from South Australia, or living here anyway, how do you run the lines that make sense to people and which will be able to make us move forward in a very constructive way in this area?

**Dr Findlay**—Let me respond to that first, because these papers were designed to make a contribution to exactly that question. Just by way of introduction, we would not say that trade liberalisation was the least important. They are all important.

**Senator SANDY MACDONALD**—It is the most important but not the only part.

**Dr Findlay**—Yes. What is the analogy our Indonesian friends use? It is like a stool with three legs—you need them all there; otherwise the stool falls over. But on the benefits of trade liberalisation, these reports were responding to the arguments that people like Mr Fischer have been making that we need to be able to communicate the benefits of trade liberalisation to the general community. So the request here was not for large-scale modelling work, which is still important and interesting, but for examples of the process of liberalisation, how people have adjusted to it and how they have benefited from it.

So what we did here was to pick on two sectors where we knew there had been some change. This focuses on the ASEAN countries and China where we knew there had been some significant policy changes, and it tells the story about what happened in those industries. It is a very interesting story. What people did was specialise in different areas and then we went out and found enterprises which had been part of that process. So we were trying to throw up a series of anecdotes, case studies, material about firms, to say how they responded to the competition; what happened to their employment, and what happened to their exports and their sales.

There is a proposal on the table to do more of that work which the upcoming meetings of APEC are looking at, designed to deliver material exactly to you—you are one of the key audiences, people who are taking policy ideas or initiatives and going to the broader community and trying to explain them—to give you an armory of material to let you evaluate the case yourself, but also then go on and communicate. The challenge there is to get that sort of material into a form which is easily digestible, and we are in the middle of chatting to each other about reports and pamphlets and web sites—you know, ‘You’ve read the report, now see the video’—to do it dramatically differently than has been done before, and have a focus on the interests of countries across the spectrum of development.

**Mr Bora**—The challenge is also at a number of levels, and one level which I think is certainly where more effort is required, and where the returns to understanding the process I think are extremely high, is, funnily enough, at the university level, at the higher education level. The economics profession has not done a good job in terms of selling trade liberalisation. Most of the economies that have attempted to do that have been able to present nice mathematical models and point out the efficiency gains and the welfare effects from freer trade. Over the last two years at Flinders University—well, at most universities—international trade policy is usually taught at the third or at the honours level, after trade theory, and hence you have to go through a mathematical, theoretical course before you can actually do commercial policy.

At Flinders two years ago I reversed it around, because really to understand international trade is a very simple concept and a very good advantage, an absolute advantage. I had been lecturing a trade policy course, which is a second-year course, for which students only need first year. The enrolment and the response from students has been very good. It is now the highest enrolling course in our department at the second-year level. The University of Adelaide now has a similar course. In fact I teach half of it, and the enrolment there as well is very high.

So we have these 17- and 18-year-old students with only first-year economics, with no math at all. We are talking about issues such as trade liberalisation, such as trade policy on whether or not Australia and the United States should have a free trade agreement about the development of the World Trade Organisation. Last year I had Alexander Downer, for example, take a lecture for an hour or so. He came, and he quite enjoyed that venue, and being able to talk to these students and essentially give them a viewpoint and so on.

At that time there was the tariff debate and the editorials from the *Advertiser* were quite vicious and I was cutting them out and bringing them to lectures. They were going along the lines about economic sophisticates and their high-paying jobs, arguing about trade liberalisation. I walked in, and I said, 'This must be me, I guess.' You know, you can have a discussion with these students, so over the last two years we have now graduated, at the two universities, over 400 students that have been exposed to and now know these acronyms of APEC, WTO, GATT and so on. I think that is another level that needs to be looked at.

**Senator SANDY MACDONALD**—It seems that the two groups out there in the community who believe in trade liberalisation are economists, because every economist always says on one hand or on the other—but they all agree on trade liberalisation.

**Mr Bora**—They do, yes.

**Senator SANDY MACDONALD**—And politicians, and we have to argue that out there in the community, and we try to do it with varying degrees of success, I suppose. The three of us will be doing that from time to time and quite frequently the question comes up. It is always very cool comfort to a citrus grower who is going broke to say, 'We export four times more citrus than we import. We now, because of tariff changes and trade access, are exporting navels into California, the home of navels.' It would not matter how high our tariffs were, Brazilian concentrate would come in. It is cool comfort to that producer to know that things are going very well in the rest of the community.

Of course the rest of the community do not see those advantages. It is important for us to be able to run arguments and to educate people so that they do understand the benefits of it, and always acknowledging that if the proverbial has hit the fan then people have warning of it and also that they have a chance to structurally adjust to that.

**Mr Bora**—At the community level. That is what is important about these second-year students. We get invitations all the time about flying to various countries and giving training courses to government officials, but that is for them to go off and work in Geneva and so on. But these 400 students that have now graduated are going into everyday jobs, and I say to them at the beginning and the end, ‘All we have done is to say that the front page of the newspaper, at least once a week, is going to have a trade issue, whether it is CDs, whether it is imports of Brazilian oil concentrate, chicken from Thailand, et cetera. All we have done now, all we have given you is the option of reading that whereas before you did not.’ Then they will go into a bank teller’s job or whatever, and I think that is what the focus has to be.

**Senator SANDY MACDONALD**—It is also the media that you must—

**Mr Bora**—And the media as well.

**Senator SANDY MACDONALD**—Even your rural broadsheets, *The Land*, the *Stock and Land* or the *Weekly Times*—will lead with items that give, with respect to chicken meat, only part of the story. They will run these horrendous campaigns because they are newsworthy for a long period of time. When the government of any political persuasion makes a decision which reflects that perhaps partly community pressure, partly political pressure, but partly the fact of scientific—in the case of chicken meat we were able to use scientific grounds, which everybody agrees are part of the WTO process to say limit that—then, of course, it gets very little publicity, but I suppose that is the price that you pay to be in politics. You are not looking for the bouquets. You get kicked up the backside if you do not meet the expectations of small, specialist groups in the community. But it is really a very big task both for you and for us. If PECC could direct some of their energies into educating the media it would be very helpful.

**Mr Bora**—As I said, they are only 17- and 18-year-old students. I should point out that in these topics, other than saying I guess I have been part of it, these are precisely the kinds of things that the wider community and people out there selling it, both the academic and business and the political, needs.

**CHAIR**—Could I just pick up on a point that ties in with Senator Macdonald’s statement, because I think we are pretty much at one. The thing that confronts us greatly is the issue of job security. It does not matter which political party you are in, the focus of our constituency, of course, is the ability to be able to work and to continue to work. What attention has been given to transitional arrangements for those who are going to feel the adverse affects of trade liberalisation, and the other aspects of the APEC agenda? In other words—

**Mr Bora**—At the national level or at the regional level?

**CHAIR**—At any level. Has this been the subject of discussion? Let us say we drop a certain tariff and the consequence is that X number of people will lose their jobs. People just sit back and say, ‘That’s terribly sad. We feel sorry for you, but you’re strong enough. Now you find yourself in that situation; go off and cope with it.’ Is there a responsibility of the national government? Is there a responsibility of the whole community at large to manage it such that we minimise the impact, look at restructuring and retraining programs to accommodate those who are affected, and has this been the subject of discussion? What sorts of outcomes are there?

**Mr Bora**—It certainly has not been a subject of discussion at the regional level, but certainly my experience at the ministerial meetings has been that each minister is cognisant of that fact; that there are going to be regional effects. But I will just give you my experience, having been in Canada at the time when the Canada-US free trade agreement and NAFTA were being negotiated, and actually CUSTA was being implemented. The Canadian economy is very similar to the Australian economy, being geographically quite large, and also being geographically separate in terms of industry specialties.

Atlantic Canada very much focuses on fisheries and light manufacturing; central Canada, heavy, mainly factory; prairies, agriculture; and western Canada, forestry. The development of Canada has been very much along the east-west lines, with the high tariff rate between Canada and the US forcing goods into the markets in Ontario and Quebec, whereas in Atlantic Canada their closest market is the largest market, which is the New England area—Boston and New York—but the tariff rates were too high.

The implementation of CUSTA, the Canada-US Trade Agreement—and to some extent NAFTA—had a very heavy emphasis on what they called an adjustment cost—how can we bring a region which is already quite low in terms of relative per capita income into this liberalisation process? In Australia there has not been a lot of discussion on the adjustment cost issue in terms of, say, specific packages. But certainly that is something that needs to be gone into, this whole process, so that on 1 January when the tariff goes down to zero somebody who is a citrus grower does not lose their job but there is some process or package in place which will help them through. At the regional and multilateral level there are also rules in place as to what form that package can actually be in terms of specific subsidies and so on. There is a regional interest in making sure that these packages are not different forms of assistance to simply replace the tariff.

In the Australian case in Howe Leather, Foreign Affairs is working at looking at packages which can assist that industry if the, shall we say, discussions with the US do not go in Australia’s favour. But these packages have to be WTO consistent. So there are two levels at which they take place, but certainly the focus is at the national.

**CHAIR**—The initial response so far, and I am thinking now motor vehicles and textile, clothing and footwear, has been, ‘We’ll just put a pause on the tariff.’

**Dr Findlay**—I think that is the wrong signal.

**CHAIR**—I understand, and that is why I am searching to find out.

**Dr Findlay**—That does not help the adjustment process. That just seems to me to send the signal to people, ‘Okay, if you play the game right we will just delay.’ That actually increases the cost of making the adjustment from everybody’s point of view. I would much rather have seen that we have got a commitment to a continual reduction because then the message would have been there that adjustment is coming down the track, and we will respond to it.

**CHAIR**—So in terms of the argument you are putting forward, we are not responding in the proper way to those sorts of structural changes that are going to take place, but by the same token we do not seem to be able to respond, from a governmental point of view, to putting packages in place to say to these people who are going to lose their jobs—because it is a real fear for them—‘Right, you may well no longer be working as an assembler out at such-and-such a plant, but there is a retraining package, a reskilling package, which will see you in another industry.’

**Senator SANDY MACDONALD**—Yes. If I recall, in an Industry Commission report on textiles and clothing, there were some specific suggestions about initiatives that might be taken to complement the reduction in tariff rates in the sector.

**CHAIR**—We will adjourn for a few minutes so that we can be at least a little bit civil and have morning tea. We would like you to join us, of course.

**Dr Findlay**—Yes. When we come back, what I wanted to try and argue to you was making a connection between Ecotec and these issues we have been talking about.

**CHAIR**—Yes, feel free.

**Proceedings suspended from 10.56 to 11.15 a.m.**

**CHAIR**—All right, we will now go back onto the formal hearing. You wanted to make some further clarification for us about Ecotech.

**Dr Findlay**—Yes. I wanted to talk about economic and technical cooperation. It is a huge agenda in APEC and I think it can be used much more effectively as a complement to the liberalisation programs than it has been used so far. There are a lot of resources which have gone into the economic and technical cooperation program, and some good things have come out of it, but a lot of projects are difficult to evaluate, do not seem to have clear priorities, and our assessment—this is a summary of our remarks in the blue book that you have—is that there is very little business input. Business input would be helpful because it would force the participants to make clearer their goals, and it would facilitate the execution of projects because business would come to see the opportunities that were associated with the programs.

But in the context of the conversation we have just been having about managing the adjustment to liberalisation, I think these Ecotech packages are potentially really very important. They can do two things, I think. One is they can be designed to deal with the bottlenecks to growth, and it applies in our economy as well as those in the rest of east Asia. We know from experience it is much easier to bring about reform in a growing economy

because there are more opportunities; people can see alternatives. There are new employment opportunities being created. So a focus on those bottlenecks is an important part of the Ecotech program, and feeds directly into the liberalisation agenda.

The other part of the Ecotech program which could be useful is looking at liberalisation in other sectors which complement the sector that you are focusing on. For example, maybe there has been a program of liberalisation in textiles, clothing and autos. You are saying, 'Where are the training programs? How is the restructuring going to be managed?' It's an issue in our economy and in others. Maybe part of the issue is about the flexibility and responsiveness of the education and training system. Maybe there is a case for having greater private sector involvement in that part of the economy, greater foreign involvement in that part of the economy as a way of facilitating the transition.

That sort of program is an Ecotech program, it seems to me, and it is something which usefully could be organised within the APEC system. That particular example may be not so relevant in our economy, but it certainly is in others, and their growth affects our growth, so that we have got mutual interests in getting all this right. I think if we brought that question 'How does this project facilitate the liberalisation goals of APEC?' into the evaluation of these economic and technical cooperation projects, the whole structure would be more effective and work more quickly at the same time.

**CHAIR**—There is a view that was expressed to us by ACCI—the Australian Chamber of Commerce and Industry—that there were too many projects.

**Dr Findlay**—Exactly.

**CHAIR**—And that they were too broad, and that it should be honed down—I think there are some 320, and I might be out just a few, but it was around that number—to about 40.

**Dr Findlay**—Certainly. Getting some priorities into that economic and technical cooperation program is critical, and I am arguing for two things.

**CHAIR**—Who is responsible for the prioritisation?

**Dr Findlay**—I think that has been part of the difficulties. There has been no mechanism within APEC to put some priorities into the system. My understanding is what has happened recently is that the senior officials themselves have established a subcommittee on economic and technical cooperation in order to do this, so some progress might be happening. This is a good time for us to feed in these ideas about whether it complements liberalisation and how the private sector can be involved in the delivery of these projects. When we did this for the blue report there was business input or participation in only about a third—that is 35 per cent—of the total number of Ecotech projects at that time, and without that constraint they run the risk of producing data, organising meetings producing reports which are not directed at the fundamental goals of the organisation.

**Senator LIGHTFOOT**—Mr Bora, I have noticed that in your paper to the meeting of APEC in Canada—I think it is titled 'Policy implications of Canada's trade and investment linkages in the Asia Pacific'—you talk about APEC's credibility. Is it being eroded? Has it

always had credibility? Is it on the way out? Where do you see APEC going, and if it is losing credibility, how is that manifested?

**Mr Bora**—The context in which that point was made was essentially trying to confer upon Canada some obligation or reaffirm its obligation as the host of APEC. APEC's credibility and momentum has been on the upward since 1994. You had the first leaders meeting in 1993, at which time there were a number of things: you had the Uruguay Round concluded; you had NAFTA being passed by Congress; 1994 was the Bogor declaration; 1995 was the Osaka Action Agenda; 1996 was the first instalment on the Bogor with the action plans. We then got to 1997, which was Canada's year. Every year there had been some finite conclusion or finite progress based on that year's work, but for Canada it was not really clear what the next step should be.

**Senator LIGHTFOOT**—Isn't all progress finite?

**Mr Bora**—It was not really clear what Canada was seeking at the time that article was written. They had in their initial paper which they had put out as their objectives for 1997 issues such as gender; they wanted to accelerate the FEEEP agenda; they had youth and APEC meetings and so on. There were a number of things that were under the APEC umbrella that were being broadened, so the issue on APEC credibility was: what is APEC actually doing as an organisation. Yet when it had started in 1989 it was very much meant to be a vehicle for trade and investment discussion. It then went to the point where it was a vehicle for trade and investment liberalisation, and that is where its credibility was going to be made or broken.

So regardless of how broad the APEC agenda is, the media, the public, the politicians and the business sector are always going to evaluate APEC on its ability to deliver trade and investment liberalisation, not on the number of meetings that it has had or the number of people that have attended meetings. At the end of the year, the *Economist*, the *Asian Wall Street Journal*, the *Far Eastern Economic Review*—all the media are going to focus on, 'Okay, are tariffs lower this year than they were last year? Is market access better this year than it was last year, and how much of that is attributable to what APEC has actually done?' So 1997 was a critical year in terms of making sure that the credibility was not eroded—this credibility that was continually building up. It hit 1997, there was scope for it to be eroded. In 1998 there is further scope for it to be eroded because you now have a chair which is well-known as not being enthusiastically supportive of APEC.

**Senator LIGHTFOOT**—In what aspect?

**Mr Bora**—Malaysia as chair—Mahathir.

**Senator LIGHTFOOT**—What aspect of APEC is he not supportive of in APEC?

**Mr Bora**—The notion of the fact that APEC can be this vehicle for liberalisation, or APEC can be an instrument for the—

**Senator LIGHTFOOT**—You see it as a panacea then for all trade and investment liberalisation, as opposed to, say, the Malaysians?

**Mr Bora**—No, I do not see it as a panacea. As I mentioned in the opening remarks I see it as one vehicle or a conduit which is complementary to other avenues such as the multilateral avenue. So Canada was facing this issue of credibility. But interestingly enough—and this is very much due to the May APEC trade ministers meeting in Montreal—by the time we got to May, Canada still did not have a clear idea as to what outcome it wanted in November, that is, what would be its flagship achievement during the year. The trade ministers—and at that time Minister Downer was representing Minister Fischer—recognised that, and it was only at that time in May that they raised this issue of early sectoral liberalisation.

It was something that was sort of in the wording, and was not meant to be a key element of APEC's work program, but that day and a half meeting in Montreal is where it raised it. We came to Vancouver, and that was clearly the significant achievement. What did APEC do in 1997? It has made a commitment on early voluntary sectoral liberalisation. But that outcome was not foreseen or predicted prior to May. So the comments that were in that paper were very much saying that Canada had to find something in order to make sure that APEC's credibility was not eroded, and at least in my view what they got was something that they had not planned on, but they were lucky it came along.

**Senator LIGHTFOOT**—What was the bottom line on Canada's erosion?

**Mr Bora**—I think early voluntary sectoral liberalisation saved them in that sense in that area because with a number of the media, a number of the APEC critics—if you take that out of there, there would have been very little for APEC to have shown, other than the fact that the timing was—

**Senator LIGHTFOOT**—So the erosion did not happen—or was it curtailed? Was it arrested?

**Mr Bora**—Yes, I think it was arrested—well, not arrested; as I said, it was built up to 1997, and that is where it would decline, and I do not think that decline had occurred because this early voluntary sectoral liberalisation came into place.

**Senator LIGHTFOOT**—So do you think that trade and investment liberalisation should be absolute so there is no bottom to it; that it should go on ad infinitum with no barriers and no protection at all for any of the member countries?

**Mr Bora**—As an end point, yes, I do. I think that is something that is in the interests of all countries.

**Senator LIGHTFOOT**—What about the view that is sometimes suggested to me at least that with the United States sitting there with one giant foot in NAFTA and another giant foot in APEC that any trade and investment liberalisation is really to the benefit of the USA?

**Mr Bora**—That needs to be qualified by the simple fact that the US probably has the lowest level of protection of any country in the world, so I would feed in a number of agreements. It is not that they are delivering any preferential acts as to these members,

except in some products—agricultural products and some systemic issues such as in the case of investment—

**Senator LIGHTFOOT**—That is by way of subsidy rather than by way of tariffs.

**Mr Bora**—Yes, and also systemic issues such as access to a dispute resolution for foreign investors under NAFTA and CUSTA, which is something that US investors do not have access to, and broadening of issues such as intellectual property; the TRIMS provisions are stronger. So there are a number of these sorts of issues. I do not think it is really correct to say it is going to benefit the US. The US is not delivering much in terms of preferential access. However, what it is doing is seeking access for its products in these other markets, so where the fear is or where the threat is to Australia is the fact that American producers would have access in Mexico as an emerging market or in Latin America, which in 1996 posted the highest growth rates, trade growth rates.

**Senator LIGHTFOOT**—But from a low base.

**Mr Bora**—Yes, but the numbers were still double digit—I mean very high levels of growth—and in 1997 quite clearly they are going to be considerably higher than East Asia's, and certainly for 1998.

**Senator LIGHTFOOT**—Do you think that the trade liberalisation that was never predicted in the immediate postwar years, but has gone on, is going to mean that member countries with quite obvious expertise in certain areas are going to be locked into those particular areas that they earn their greatest amount of export income from? Now, can I mention that the USA will always be dominant in the aircraft industry. The USA will always be dominant in what may eventually become a burgeoning industry with respect to, say, both fissionable and fusionable nuclear power generators. Australia, as long as its ore lasts, will continue to dig bigger holes in the ground. We are the biggest exporters of iron ore in the world, the biggest exporters of alumina powder in the world, the biggest diamond mine in the world, one of the biggest nickel producers, the third biggest gold producer, and so on. Are we going to get locked into situations like that—and I am not limiting it just to the USA or Australia, but to Canada and other member states?

**Mr Bora**—No. I think the presumption there is that the economy or the global market is static and not dynamic. If you take that view, then you liberalise, and Australia will be a net exporter of resource products and agricultural products and the US in terms of very technology-intensive manufacturing. But the market has changed. Ten years ago, or really 12 years ago, the personal computer was not even listed as a trade item; it was listed under television. The CPU was listed under 'electronic component', which could have been a stereo, and a monitor was listed as a television set. It is dynamic, and what is important is for economies to adjust to that dynamism.

**Senator LIGHTFOOT**—How do you adjust to it when the infrastructure is so high? Say if you want to go into the computer industry or into the chip industry, which is dominated by the Americans, by the USA, how does a country break into that with its massive infrastructure costs without assistance from government? Then it could be breaching WTO rules?

**Mr Bora**—The presumption is that might not be what it should be doing.

**Senator LIGHTFOOT**—Exactly. I think that is what the USA keeps on hoping.

**Mr Bora**—The comparative advantage in Australia would be, I think, either before that process, which is in terms of developing, writing software, developing systems, or post that, which is servicing that market.

**Senator LIGHTFOOT**—So have subservient industries, say, to the United States?

**Mr Bora**—No, parallel industries. There are a number of stages—

**Senator LIGHTFOOT**—But you have not, with respect, Mr Bora, mentioned any parallel industries there.

**Mr Bora**—Well, software writing for the financial industry.

**Senator LIGHTFOOT**—That is a supportive industry.

**Mr Bora**—No, it is an end point.

**Dr Findlay**—I am reflecting on our report about the electronics sector in the ASEAN countries, where two things were very important. One was the flow of foreign investment including from the North Americans themselves into those industries, and the stories that are in there about how local capability built up as a consequence of supplying not just local television makers, but also the foreign firms, and through that mechanism there was a dramatic transfer of technology.

**Senator LIGHTFOOT**—We do not have a television manufacturing industry in Australia any more, do we?

**Dr Findlay**—No, but you are looking for examples. Your question was, ‘Do we get locked into these particular positions that we might be in when we liberalise?’ My response is, no, we do not. One of the mechanisms that means we do not get locked in is the flow of capital. Another mechanism is technological change itself. Let me mention an example that was in the papers in the last few weeks. One of the most exciting things in Australia at the moment is the new iron ore processing technology that is being developed in Western Australia. Some plants are being built with established technology, but the direct smelting technology of Rio Tinto is a very interesting product, and could turn us into a far greater—

**Senator LIGHTFOOT**—You mean the high-smelt process?

**Dr Findlay**—Yes, the high-smelt process could—

**Senator LIGHTFOOT**—That is yet to be proven, isn’t it?

**Dr Findlay**—The reporting I see suggests they are becoming increasingly confident about its commercial success, and that will change the pattern of exports out of that

industry—another example of the sort of change that Bijit is talking about. I think this adds up to a case for regimes in our economy and in the ones we deal with that give us the flexibility to move between those opportunities.

**Senator LIGHTFOOT**—So you see a stepping towards the first step with respect to value added, but not the ultimate step, which is the big dollar earners?

**Dr Findlay**—It may not be worthwhile going to the ultimate step because they are actually producing those final-final products which have a big price tag in gross terms. Those final steps can be quite labour intensive and not a sensible thing to get involved in.

**Mr Bora**—The returns to assembly manufacture of high-tech equipment are actually quite low, which is why they are located in Penang and in Taiwan and places like that. Where the returns are high is in areas such as R&D, and also in terms of, as I said, post-software application writing. These are areas where Australia with its highly educated work force can compete, so the focus to not being locked in in a dynamic economy really is innovation and having an economy that has a capacity to respond to these changes. The only way to be able to do that is to at least be able to identify these competitive pressures and be exposed to these competitive pressures that are there.

**Senator LIGHTFOOT**—With respect to aircraft manufacture, wouldn't you concede that Seattle is going to get bigger, and that any other peripheral producers—even in South America, where there is a small aircraft industry, not burgeoning, and Indonesia—will probably get smaller, as perhaps the only counter to that Seattle giant is airbus industries, and that will remain in the foreseeable future forever like that?

**Mr Bora**—Yes, but that is a very narrow industry and extremely high fixed cost to enter, but if you, say, take a look at Canada and Dash 8 and De Havilland, they have got quite massive market penetration. The highest of Australian imports from Canada is aircraft components, and that is for the Dash 8s that we have flying around regional Australia. The Canadian companies have built aircraft to satisfy these small, isolated regional markets.

**Senator LIGHTFOOT**—A niche market, yes.

**Mr Bora**—So it does not bother me one bit that Australia cannot manufacture a 747.

**Senator SANDY MACDONALD**—Who manufactures Dash? Bombardiers?

**Mr Bora**—No. Bombardier has a stake in it, but De Havilland is the big owner.

**Dr Findlay**—That is a very interesting company, that Bombardier group, and that is the sort of circumstance—

**Mr Bora**—And Bombardiers is the same thing—train carriages and—

**Senator LIGHTFOOT**—Just on that point, I have an idea that some of those niche markets with respect to aircraft manufacture in Brazil and Canada are subsidised by their respective governments.

**Mr Bora**—I do not have a definitive view.

**Senator LIGHTFOOT**—Do you see a conflict between, say, the three major trading blocs, one of which America does not have a great deal of conflict with, the EU? With NAFTA and APEC, do you see a conflict with America sitting there as this massive giant, virtually pulling the reins on both trading blocs?

**Dr Findlay**—One of your starting points was to talk about the benefits of liberalisation, and you suggested that the benefits would accumulate mainly to the United States. I would argue to the contrary, that the gains from liberalisation are to do with the reallocation of activities within an economy and the change in its own trading pattern. So countries like China, which have taken dramatic steps to liberalise their economy, are reaping significant gains from that change in their own policy.

**Senator LIGHTFOOT**—Still with a fixed currency though?

**Dr Findlay**—They still have a fixed currency.

**Senator LIGHTFOOT**—And they will survive a lot better than those undeveloped or partly developed countries that did not fix their currencies.

**Mr Bora**—That is adjustment costs.

**Dr Findlay**—There is a substantial risk that that currency will not stay fixed, and that is an arrangement which they are going to have to come to grips with sooner or later. That involves a sequence of reforms which include the financial system. Coming back to my theme on economic and technical cooperation, there would be a very interesting and important program of work for APEC to engage the Chinese financial system, and not only China but other East Asian economies as well. That sort of reform package is going to be a vital complement to helping those economies get the gains sooner from their liberalisation programs, so I do not see it being concentrated in the hands of the United States. Further, I would see that the United States', Canada's and Mexico's memberships of APEC are a very important mechanism for APEC to keep monitoring and keep pressure on those economies and the way they manage, and the NAFTA process.

**Mr Bora**—Yes. I was just going to make that point, that the membership in APEC is also a way for them to manage the US, that things that they want to raise within the NAFTA context they can and have raised in the APEC context, and we have seen that happen a number of times. Certainly Canada has not backed down from challenging the United States on a number of areas. NAFTA expansion is the obvious one: if the US is not going to expand to Chile, we will, and they did. They signed an agreement with Chile. Also within APEC, the sense that I have is that the US has not been driving the agenda. Certainly some issues have been made about Australia's role in terms of driving the agenda, but it has never been one where we have seen the United States drive the agenda at all.

**Senator LIGHTFOOT**—How could the Australian rural sector use APEC to induce the Americans to cancel the subsidy on some of its rural exports that do harm Australia? Would it be like biting the tail hair on an elephant to do that, or do you think there is some genuine

way that APEC could be used as the forum to bring back some fairness in the competing rural exports?

**Dr Findlay**—There are a couple of mechanisms. The first thing is to make sure that those United States policies are transparent. The individual action plan process is a very important mechanism for identifying the interventions that countries have in their trade policy, so those sorts of interventions need to be documented. There is a lot of work going on at APEC at the moment on that, and it is something that we are trying to contribute towards. The second thing APEC can do is to demonstrate to the United States, communicate to the community of interests in the United States who are in favour of a liberal regime, including their own farm products regime, that liberalisation is taking place in this side of the Pacific, and thereby keep up that pressure in the domestic political economy in the United States. Those two things, transparency of US policy and providing a mechanism to bring home these international commitments, which we talked about earlier, are significant in the domestic decision making process of the United States, which is what you want to get into.

**Senator LIGHTFOOT**—Professor, and Mr Bora, do you have a collective view that a United States subsidy to some preferred exports is unfair within the guidelines of APEC?

**Mr Bora**—There are no guidelines under APEC governing subsidies.

**Senator LIGHTFOOT**—If you take World Trade Organisation to which we both belong, it would seem that subsidies in order to obtain export markets are wrong.

**Mr Bora**—The subsidies code in the WTO classifies subsidy as amber, green and red light. I do not have certainly a detailed, informed view on it, but certainly if the Australian government felt that the subsidies used by the United States were in violation of the subsidies code, then, as the US has done, Australia is free to take the US to a WTO dispute on those.

**Dr Findlay**—Or in the APEC setting, the Australians could make the subsidies code an issue and could argue for APEC members to get out in front of the WTO on subsidy issues.

**Senator LIGHTFOOT**—But, as I said, that may be like biting the tail hair of the elephant. It is not going to feel it; it is not going to feel any pain.

**Mr Bora**—We have got China already talking about tariff liberalisation, and the suggestion three or four years ago of China talking about any sort of liberalisation was certainly not broadcast widely. But you now have a number of countries—Vietnam and Russia as well—discussing issues such as not only trade liberalisation, but certainly liberalisation and deregulation in general. I think, again, of this notion of APEC as a conduit and vehicle where these issues can be brought up. You need not bring them up forcibly, but once you end up having a community interest in an issue, then you can pursue it within the APEC context, and the way to do it is to have the ‘walk, don’t run’ approach that Christopher mentioned, which is, ‘Let us focus on transparency and also on impact.’ Once these have been done, and certainly done in a robust manner, then the issue can be brought up, pushed forward in APEC, and ultimately in the WTO.

**Dr Findlay**—But APEC has to continue to be credible in the United States so that the constituencies which we want to get to in the United States continue to see it as valuable. Maintaining that interest is important for APEC, in order to deal with these things, talking about services, for example, or foreign investment regimes. Australian agricultural interests are tied to APEC making good progress on those things as well.

**Senator LIGHTFOOT**—I do have some personal fear that Australia is going to be locked into forever being one of the big pit miners of the world. Let me just finish off with this last question: then do I take it that you see nothing of an urgent nature that needs to be brought to the attention of APEC with respect to the American subsidies on agriculture?

**Dr Findlay**—No. I would say it was urgent that those policies are made transparent. How they are dealt with from then on I do not know enough about the WTO code to comment on, but it sounds as though an interesting thing to do might be to have a review of that code in APEC and see if APEC members can commit to something better.

**Mr Bora**—One issue which is in the ‘to do’ basket and moving into the urgency area is this definition of free and open trade and investment. That still has not been certainly written down by any country in terms of saying that free and open trade and investment are zero tariffs and zero subsidies, and this is this issue of transparency.

**Senator LIGHTFOOT**—That is the ultimate goal.

**Mr Bora**—We do not have that commitment. The only commitment that countries have made is to free and open trade and investment by 2010, but that has not been defined. Mahathir has suggested that that could be a tariff rate of between zero and five per cent.

**Senator LIGHTFOOT**—Or 300 per cent with respect to the motor cars that cannot go from Australia to Malaysia.

**Mr Bora**—Yes, but he has zero to five per cent, so you could interpret that to mean that perhaps motor vehicles would come down to five, but would not go to zero. It says investment, but we do not have a definition of free investment. Does that mean national treatment to all foreign investors? There is no wording in there on subsidies, so these are useful things which APEC has already put on the agenda that Australia can certainly advocate, quite consistent with its work program, and say, ‘Let us look at this definition and make sure that the definition or the principle in the Osaka action agenda for comprehensiveness includes not only sectors but policies such as subsidies.’

**Senator LIGHTFOOT**—So would it be fair to say that some members are a little recalcitrant in liberalising trade within the APEC umbrella?

**Dr Findlay**—It is fair to say they are on different paths, but our assessment was they will be—

**Senator LIGHTFOOT**—Will they diverge?

**Dr Findlay**—They were all making good progress up till now and, to repeat an earlier conversation, that is why making them think about these difficult sectors through to the early voluntary sector liberalisation program turns out to be a good idea.

**Senator LIGHTFOOT**—So are these paths converging or diverging?

**Dr Findlay**—They are converging towards the goal, and there is a neat illustration of that in that little blue book where there are some trajectories of what they are up to.

**Senator LIGHTFOOT**—I appreciate that. Thank you very much.

**CHAIR**—We are fast out of time, but there is just one issue I would like to comment on before you go, which fits in with the nature of the inquiry itself, and that is how do you see the role of the Australian government evolving in the APEC process? Initially, Australia played a fairly dominant role. Should it continue to do so? Are the Asian countries in particular looking to us to be playing a role at the forefront of APEC? Just how do you see our role evolving?

**Dr Findlay**—I would say that we should take every opportunity to play a role in this process. I think we are seen to be effective rather than dominant in the system. It is certainly the case that a lot of ASEAN people in particular were appreciative of the positions that we were taking which helped their own, and that the textile, clothing and auto decisions have diminished that position that Australia had in the system, and thereby diminished our capacity to deal on the other things like agricultural product which we are very interested in. So our agenda, it seems to me, requires us to be active and to be intelligent about the way we pursue those strategies. You have to bear in mind the way the thing works. It does not have a tight bureaucratic structure. It works in a cooperative way.

**CHAIR**—But someone must drive the momentum of the organisation.

**Dr Findlay**—We can play a vital role in agenda setting, inputting ideas and research and in that way being effective.

**Mr Bora**—I agree. What has happened—just on an earlier discussion—is that there is certainly a substantial burden on the host country, and over the past few years the leader of the host country has always taken a very proactive role. Suharto had a very proactive role in terms of securing the Bogor declaration, and so these are things where, as Chris said, Australia need not be dominant, but it certainly needs to be effective. That means ensuring that APEC still has a high profile within the foreign affairs portfolio, that it also is present in terms of the general community discussion, in terms of general community education and profile and, most importantly, is relevant in the business sector.

**CHAIR**—Professor Soesastro pointed out that there are two different views on APEC. The first is a broad view based on understanding that APEC is about community building in the region, a view suggesting that APEC is a process, and that the process is what is important. The second view is a narrow view that focuses on outcomes, such as producing an investment code or the negotiation of tariff cuts. He expressed that concern to us on the basis that the narrow view will create too much stress and tension inside APEC and would

be divisive. Has too much emphasis been placed on the narrow view, and should there be a merging of both the broad and the narrow views, including an extension of the 2010 and 2020 goals?

**Dr Findlay**—My view would be that a focus on the process alone is not sufficient, that you need to keep delivering items to keep everybody interested in the thing. So of the three models you suggest—process, a narrow view on negotiating particular mechanisms, and a merging of the two views—it is the merging of perspectives which, it seems to me, is going to be effective in APEC. I think he is right to say that APEC does not have the mechanisms for doing a lot of tight negotiation on tariff cuts or designing new codes. I would much rather see that activity be sent off to institutions where it can be done. It could be backed to regional structures like AFTA or CER, or it could be onto global structures, preferably like the WTO. They are the places that have the mechanisms for that sort of highly specific production of agreements, codes and outputs, but the APEC process is critical to getting a consensus on those things. But they too have to be seen, to keep everybody's interest up. Just like we were talking about the US, they have to be seen to be producing something. So, in a way, this is one of the PECC challenges, to come up with products which we think are efficiently produced in APEC, and which contribute to the process continuing.

**CHAIR**—There is just one other thing I want to ask, and that is the question of model. We will use NAFTA as an example, the modelling done on what people thought would be the result of NAFTA coming about and implementing its program. Of course, the expectations were quite different from some of the outcomes, particularly in the employment areas. Do we have any successful modelling in the area of APEC and what the outcomes of APEC would be, and so on? The reason I raise it is that we heard from ACFOA that there was an Industry Commission model which they described as not being a very successful model. We have been given other insight as to other modellers that we might look at. What is your experience in the area?

**Mr Bora**—Modelling has always certainly been an imprecise science. That is not to say that they are useless. The Industry Commission model, in my experience, is a very good model. It is a very complete model, and they have used it and applied it in a number of very interesting contexts. It is one of the first models to be used to look at services liberalisation and I have actually used it to look at investment liberalisation. But the models themselves are certainly indications. In the car tariff debate we had, this issue of modelling degenerated into looking at exact numbers, but all the models came up with the right sign; the benefits were positive, there was an issue of magnitude.

There are a number of other models. There is the GTAP—global trade analysis project—model, and there are some used in the World Bank and so on. I think the right way to use these is as inputs into the decision process, not as de facto rules to make a decision on. But certainly there is a lot of active work being done both in Monash and the Industry Commission. I also might add that both those two are certainly world leaders in terms of modelling.

**CHAIR**—All right. I thank you for your presence here today. The information that you have supplied to us has been both thought provoking and challenging, of course, and will be useful to us in compiling the final report that we bring down and present to the Senate

ultimately on this issue, so we do thank you for your cooperation and the time that you have given to us.

[11.56 a.m.]

**BLACKSTOCK, Dr David John, Senior Researcher, Premier's Office, Terrace Towers, 178 North Terrace, Adelaide, South Australia 5000**

**FRASER, Mr Simon, Acting Manager, Trade Policy, Department of Industry and Trade, 178 North Terrace, Adelaide, South Australia 5000**

**HALLION, Mr James Vincent, Executive Director, Industry Policy and Infrastructure, Department of Industry and Trade, 178 North Terrace, Adelaide, South Australia 5000**

**LAU, Mr Casey, Senior Manager, Office of Asian Business, Level 15 State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000**

**CHAIR**—I welcome representatives of the government of South Australia 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. You will not be required to comment on the reasons for certain policy decisions or the advice which you have tendered in the formulation of policy, or to express a personal opinion on matters of policy. The committee has before it a written submission from the government of South Australia dated 26 January 1998. Are there any alterations or additions you would like to make to the submission at this stage?

**Mr Hallion**—Senator, there are no changes.

**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 with questions.

**Mr Hallion**—Thank you, Senator. I will briefly just summarise the points out of our submission. Firstly let me say that the government of South Australia supports the directions of trade liberalisation and facilitation established by APEC, and in particular supports the federal government's commitment to APEC as a major instrument advancing Australia's trade objectives. Seven out of 10 of South Australia's export destinations are APEC economies and therefore the region is particularly important to us.

At the same time, we are concerned at the persistence of some tariff and other trade barriers in Asia-Pacific markets and we look towards more intensive work to improve each economy's individual action plan to overcome some of these issues. It is also a perception that Australia is one of the leaders in progressing towards these goals and we do have some concern, as we expressed in our submissions in other forums on the TCF and automotive decisions, that this can minimise later leverage and also represent early opportunity for others to compete in our economy when Australian firms do not have the same opportunity in theirs.

We would also point out that, in addition to the liberalisation agenda of APEC, its trade and investment facilitation agenda is equally important. Harmonising customs procedures, regional-wide tariff database and the mutual recognition arrangements are particularly

important, especially in areas such as processed food, which is one of the sectors of priority for the South Australian government.

The third pillar of APEC, which is its economic and technical cooperation agenda, is worthy of more attention. Improvement in regional infrastructure and energy, transport and communications is an area of particular interest to us and of direct benefit to businesses in South Australia, and Australia more generally, that can participate in those infrastructure improvements. We also note that APEC has not taken a proactive role in some of the new issues that are emerging on the international trade policy agenda, such as trade and the environment, or trade and labour rights. Whilst it might be argued that there are other forums in which to deal with these issues, we believe it may be important for APEC to consider and explore these issues.

We also note that there has, in fact, been a stepping up of consultation between the Commonwealth and the states on APEC matters, but there is always room for further improvement in this area. Particularly, I think, the Commonwealth could improve the information on what has been achieved under APEC so that businesses can realise on the opportunities in trade liberalisation and/or facilitation. So, as well as cooperating and consulting with the states on forthcoming changes to individual action plans, when liberalisation has been achieved it is obviously important to get the message out to industry to take those opportunities.

Finally, we note that progress in APEC must also, of course, be coordinated with domestic economic policy, including micro-economic reform and industry policy, if the changes are ultimately to be effective. We welcome some of the recent initiatives by the federal government in that regard. They are the only issues, Senator, that I wish to make in summary of some of the main points that we have made in our submission. We are available, obviously, to take questions on our submission.

**CHAIR**—Do any of your other colleagues wish to make an opening statement, or are you the spokesperson?

**Mr Hallion**—In terms of the opening statement, that is it, but obviously I will refer questions to my colleagues in these matters, particularly my colleague on my right, who, whilst now in the Premier's Office, was until very recently our key trade policy person, so I suspect questioning will tend to be directed to David.

**CHAIR**—So you will wear a dual hat for us?

**Dr Blackstock**—Yes, for the purposes of this inquiry I do.

**Senator LIGHTFOOT**—I am concerned about the power that the three major trading blocs have, the EU and NAFTA and APEC. After the North American free trade agreement that President Clinton announced reasonably early in his tenure in the White House, the Malaysian Prime Minister, Dr Mohamad Mahathir, announced an Asian economic caucus—I think he called it—or East Asian Economic Caucus. Has that been implemented and, if it has, what is its standing, if any, within APEC? If there has been an expression to this end,

why tactically, do you think, were Australia and New Zealand locked out of that proposal to form an East Asian trading bloc?

**Mr Hallion**—Thanks, Senator. I might direct that question to David Blackstock to respond.

**Dr Blackstock**—I am not sure that I can respond either. I have to say, Senator, I am sorry I am out of date on these things. My understanding is that the EAEC did not get off the ground. Discussions, I think, are continuing. The Malaysians are still in favour of it, but certainly in particular the Japanese, who would obviously be the key member of such an exclusively East Asian grouping, had not been, and I think there the matter rests. So far as the tactics which were in the mind of the Malaysian Prime Minister are concerned, I am sorry, I would only be speculating and I do not think it would be very useful to do so.

**Senator LIGHTFOOT**—Perhaps if I could extend it a bit further, as is the case in some European countries, do you think that Canada, the United States, Australia and New Zealand are seen as Anglo-Saxon countries? Do you think that is the reason that we are seen to be somewhat anathema to some of these countries? I think that is at least implied in Dr Mahathir's speeches at times.

**Dr Blackstock**—Again, any answer could only be speculative. I think you are right; that is certainly an element of Dr Mahathir's thinking. As regards the degree to which that sort of perception is held more widely, I can only refer back to APEC itself, where I think Australia, New Zealand, Canada—the Anglo-Saxons, if you like—are accepted as part of that grouping. Obviously there are differences in interests within APEC between the Anglo-Saxons, which is generally the developed countries, and the developing countries of East Asia.

There are also cultural differences. I think one of the previous speakers alluded to this a little while ago in terms of the Anglo-Saxons being, on the whole, outcome oriented, objective oriented—put it how you like—and the East Asians having a more consensus based, process based approach. I do not think that is to be interpreted as an effort to exclude the Anglo-Saxon members of APEC from what is going on in APEC. It is simply a difference in a way of operating. From my observance of the way APEC meetings have taken place—and admittedly I am now a couple of years out of date on that—there is very good cooperation and rapport across the board, across the table. Of course, countries have their different interests which they pursue, but I do not think that is a question of it being the Asians on the one hand and the Anglo-Saxons on the other.

**Senator LIGHTFOOT**—Do you have a view, Mr Lau?

**Mr Lau**—This is again speculation and a highly personal view of the matter, coming from the region originally. Yes, Mahathir seems to have something against New Zealand and Australia. I cannot put my finger on why. Perhaps APEC would like to pursue that issue.

**Senator LIGHTFOOT**—Do you think it would be an advantage and lead to the smoother operation of APEC if there was some understanding of how that perception of Dr Mahathir's could be rectified?

**Mr Lau**—Yes, perhaps. It could be a personal view of Dr Mahathir himself, and if the APEC members of Australia and New Zealand present a very objective case to lobby, so to say, with the other members of APEC, the other members might come to Australia and New Zealand's support.

**Senator LIGHTFOOT**—What sort of credibility does Dr Mahathir have within East Asia in terms of that view?

**Mr Lau**—I do not know about now, with the economic crisis up there, but until recently I think Dr Mahathir wielded some significant influence within the core membership.

**Senator LIGHTFOOT**—It is not immediately imminent that Dr Mahathir is to step down, but obviously all politicians have a finite life. Do you think that mental attitude would change with his successor, whose name escapes me, but I assume he is going to be a successor?

**Mr Lau**—He is perceived to be a more moderate politician or leader. There are a lot of hopes pinned on his successorship, and thereby leading the country into friendlier, more amicable approaches to countries like, say, Australia, New Zealand, and even the US and the UK. They have had their fair share.

**Senator LIGHTFOOT**—As an educated guess, when do you think that would take place, Mr Lau? A generic period will do. Obviously within the next decade but—

**Mr Hallion**—I am not sure that we should invite Mr Lau to speculate on answering when that might occur.

**Senator LIGHTFOOT**—I think it is important, if we can, to get some idea as to whether we could make APEC function better, particularly at a state level, which I am going to get onto in a moment, if we can get rid of some of the subsurface animosities and some of the other areas that impinge upon the proper function of it. Because we have the opportunity of asking Mr Lau because of his intimate association with it, I thought it was a valid question, Mr Hallion. But I will not pursue it to the point where it becomes embarrassing for him or you.

**Mr Hallion**—I think we have to be careful of the sensitivities for the South Australian government.

**Mr Lau**—Yes.

**Senator LIGHTFOOT**—Let me shift on then. I do not think that is a great impediment to what I wish to achieve. What about the achievements of APEC from a state level? What has been the positive effect that APEC has had at a state level, particularly, if not exclusively, with respect to South Australia?

**Dr Blackstock**—I do not think we could put our fingers on anything that is particularly more significant for this state than for other states. Obviously the main influence that APEC is going to have over the trading environment, which will be very important for this state

and for other states, is the trade and investment liberalisation agenda. As you know, that has got a 2010-2020 dateline on it. Things have not progressed very far, so that is a potential major influence and one which, as Jim Hallion said, we certainly support.

Many of our markets, particularly in South-East Asia, for automobiles, for example, and automotive components are a big strategic industry for us. They have got very high tariff and non-tariff barriers. If APEC can address those, that will be a big bonus for us.

**Senator LIGHTFOOT**—You are talking about primarily on the 300 per cent tariff.

**Dr Blackstock**—The 300 per cent tariff.

**Senator LIGHTFOOT**—On South Australian motor cars going to Malaysia.

**Dr Blackstock**—There is Malaysia, there is Indonesia, there is Thailand. China and Korea also have very high tariff barriers, at least on built-up cars, automotive components, I understand.

**Senator LIGHTFOOT**—But not to the degree of other similar countries?

**Dr Blackstock**—No, that is right. It depends on the product and the market, but they are still quite high, and there are things like national car projects and non-tariff barriers of various sorts as well—so that area is one we would look forward to—and processed food; food in general in fact, but particularly processed food, where I think Asian tariffs average something like 40 per cent.

**Senator LIGHTFOOT**—Can your state compete with tariffs right now?

**Dr Blackstock**—I have not brought the trade figures with me, but we are certainly selling more and more into Asia.

**Senator LIGHTFOOT**—Are they out-of-season perishables?

**Dr Blackstock**—Fresh fruit and vegetables, and aquaculture—seafood, lobsters, that sort of thing—are the main ones. The processed food is further down the chain. We also sell, of course, dairy products and meat.

**Senator LIGHTFOOT**—Have you noticed a downturn with respect to those products you mentioned since the currency crises?

**Dr Blackstock**—The main effect on this state, as other states, will be the end point of the trade liberalisation process. We have not reached there yet so it is a bit difficult to pick out specific benefits to the state, although, as the submission does say, we see the trade investment facilitation agenda as in many ways equally important in removing a number of practical impediments that businessmen face in terms of harmonisation of customs procedures, in terms of standards and that sort of thing. Again, that is very difficult to quantify on a state-by-state basis, but I think it is important to register that that is having, at least at this stage, probably more effect on facilitating trade than the liberalisation agenda.

As far as the specific question on the impact of the Asian currency crisis is concerned, perhaps—

**CHAIR**—Just before you do get onto that, could I just follow on? How do you directly feed, as a state government, into the issue of facilitation? That is basically what we were getting at. How do you feed into it? Where do you feed into the process? Where do you say, for example, ‘Standards are a problem for this, this, this and that, coming out of the South Australian economy’? Do, for example, Customs have a problem for this, this and that from South Australia?

**Mr Hallion**—The impediments.

**CHAIR**—Yes. Even something like the air industry, the routes and the ability to access markets through landing rights and so on. We are trying to get the hands-on feeling. We know the broad picture, we understand the broad picture, but what do you do that is different from anyone else?

**Mr Hallion**—Perhaps I can answer that in general terms and then hand over to David or Simon, if they want to add to it. The main forum in which we, at a ministerial level of course, enter into negotiations of that nature where there are significant issues is the Trade Consultative Committee that meets in Darwin in June each year. If we have particular issues on the agenda at a ministerial level, then we feed into that trade ministerial meeting of the trade ministers, and so do the other states, of course. That tends to be at a fairly high level and obviously deals with the more strategic issues. States can put a particular issue on the agenda, and we have done so, as have other states in the past, at those ministerial meetings.

At a more practical individual pragmatic level, if we are dealing again in the APEC forum, individual action plans are brought forward at state level for state consultations. The Commonwealth has significantly improved its consultation processes there. As I mentioned earlier, there are still some ways to go in that area, but we do have the opportunity, when individual action plans are developed, to comment on those, to put input into the federal scene, and we do so at that level. Also, if an industry in our state particularly raises an issue, we can raise that directly either through Austrade, if it tends to be more of a trading related issue, or, if it brings up trade policy issues, we make representations direct at the ministerial level to Foreign Affairs and Trade. Do you want to add anything to that?

**Dr Blackstock**—I do not think there is very much I can add. I think Jim Hallion has described it absolutely accurately. At the broad level there is the national trade consultations process. At the very specific level there are representations which we can make through DFAT usually, or Austrade, on specific problems which affect specific companies. There was one recently, for example, on the Chinese reaction to the outbreak of Newcastle disease, I think it was, in Tamworth in New South Wales, where they slapped a quarantine ban on chicken products from the whole of Australia, which practically put one of our chicken feet exporters out of business. We can take up particular issues of that sort, with whatever degree of success, but in the middle of the very broad and the very specific there is a gap, and I think that is what we need to be working on: better routine consultation between the Commonwealth and the states of the sort that we have referred to in the submission and of

the sort which has already started. We simply need to know a bit more about what is going on in APEC.

It is a question of chickens or eggs. If you do not know what APEC is addressing, it is very difficult to make representations that will affect what it is addressing, but at the same time we do need to be proactive and make sure that our particular concerns get on the APEC agenda.

**Senator LIGHTFOOT**—So what level is your contact with APEC?

**Dr Blackstock**—We do not really have contact with APEC as an organisation.

**Senator LIGHTFOOT**—How do you have some input?

**Dr Blackstock**—Through DFAT is the short answer. We do not have any real dealings with APEC ourselves. There is an APEC secretariat. It is a small and relatively limited organisation which does not do very much more than run the meetings. It does not have a great deal of policy capacity or capacity to move issues forward itself.

**Senator LIGHTFOOT**—Do you have regular meetings with DFAT?

**Dr Blackstock**—We have regular contact with DFAT. It is ad hoc. There is nothing regular.

**Senator LIGHTFOOT**—Could that be improved?

**Dr Blackstock**—It could be improved, and I think it is in the process of being improved. This is not a criticism of DFAT. It is a question of both sides making more opportunities to get together.

**Senator LIGHTFOOT**—Do you have an agenda that will achieve that end?

**Dr Blackstock**—Again, I would probably have to pass this to Simon Fraser, who is dealing with DFAT on this, but we are talking specifically about opportunities for representation on the Commonwealth delegation to key APEC meetings at the moment, which would be a major step forward in terms of the sorts of things we are talking about today.

**CHAIR**—Can I just follow on from that, and you may address it. APEC is a forum not of governments, it is really of economies, and that is how we all know it has been structured, but invariably it is the national government that plays the role. Do you think really that APEC is seen as a forum of business people, and that, with the greatest of respect to the state of South Australia and the other states of Australia, they are not seen as being partners or players in it, just as there is a number of other organisations out there in the community that are not seen as being partners or players in the agenda as well? How does one set about overcoming the problem? Is it more just a problem of perception, or is it something that is really needing to be overcome, otherwise we will have a process that breaks down?

**Mr Hallion**—Perhaps I can answer that, Senator. Certainly this is an issue we have turned our mind to, because having a large range of regional governments in APEC represented at the table would obviously be particularly difficult, I think it would be fair to say. Therefore our role can be one of influencing, rather than a seat directly at the table, from a practical perspective.

**Senator LIGHTFOOT**—The United Nations does not have much of a problem with that.

**Mr Hallion**—That is true. One of the things that we have to try to do to address this issue is to upgrade our own expertise in trade policy. I think that has been a key. In a sense we can only make a meaningful contribution to debate if we are on the same wavelength and have the expertise, the people sitting either side of me in fact, up until David was transferred to the Premier's Office, and his position obviously will be replaced.

**CHAIR**—Could I just interrupt you for a moment. The ABC did approach us earlier about shooting some footage. We had no objection. Would you have any objection to that?

**Mr Hallion**—No, we would have no objection; that is fine. In answer to your question, it is a two-way thing in a sense. We have had to upgrade the skills and expertise in trade policy, and I believe that is pertinent to other state governments as well. That is one of the things we have to do: speak on the same terms, be knowledgeable of the issues, and ensure that we can have the input at appropriate times. If we have got a well articulated and argued case, then we can influence the debate. It is a matter of influencing. I think it is difficult to have regional governments at the table in an APEC forum. However, we have recently made representation to the federal government on those lines, and the response has been quite favourable, so we will have recognition, I think, of the fact that we have upgraded our policy skills in our department, in the trade area, and that we can make a positive contribution to the debate. Obviously our issues are not always going to be given national prominence; we are aware of that, and even if they are—and Australia is 1½ per cent of world trade or something—we cannot be so bold as to assume that we will necessarily get our views accepted.

**Senator LIGHTFOOT**—Just on that point, to round this off then, do you agree with Professor Ravenhill? He said at the Osaka APEC conference in 1996 that its principal goal was:

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

We are talking about APEC. Do you agree with that to some degree, or do your thoughts superimpose it, or are you too diplomatic to give me an answer?

**Mr Hallion**—I think we could at least give a partial answer, and that is that APEC is an evolving forum, I think it would be fair to say, and as more issues of common ground come up, either in facilitation or in economic cooperation as well as in liberalisation, we would see potentially a much stronger instrument for those issues. It was early days in Osaka, and a lot has moved along since then. It is still early in APEC, in terms of benefit to probably any of

the member economies, and so unless there is ultimately mutual benefit, the forum will have limited use. The ultimate test will be its ability to generate mutual economic gain to the member economies.

**Senator LIGHTFOOT**—Is that manifest?

**Mr Hallion**—I think, in answer to your earlier question about our economy, it is still early days yet as to whether that will occur. There are certainly promising signs in all of the pillars that APEC is pursuing, but it is probably still too early, at least in our economy, as we said earlier—

**Senator LIGHTFOOT**—You do not have any alternative forum or fora, really, do you?

**Mr Hallion**—There are of course bilateral forums, and we believe the Commonwealth's perspective of setting APEC in relation to other multilateral and bilateral forums in the WTO is important. It is very important because of the emphasis of our exports in the region.

**Senator LIGHTFOOT**—How important is APEC to you?

**Mr Hallion**—In terms of setting the agenda for a trade liberalisation in certain sectors, such as motor vehicles and TCF, which we have obviously been very concerned about—with the federal government potentially moving forward faster than we would have liked, and in the end they accepted our views and other views—we saw APEC as potentially quite influential in that decision, so there are potential benefits for APEC and there are potential downsides if we believe the Commonwealth moves too fast in some areas. So it is quite an important issue for us. The fact that we have decided to deliberately upgrade our policy skills in the trade area and to start to participate more strongly in the APEC agenda setting and in individual action plans, and also starting to promote the benefits that will flow out of APEC, demonstrate to us the importance that we are placing on it.

**Dr Blackstock**—If I could say also I think how important APEC is depends on how well the other instruments of trade policy can work. Obviously if we are looking to open markets overseas, then it is best that they are opened—

**Senator LIGHTFOOT**—You are, aren't you?

**Dr Blackstock**—Exactly, and it is best that they are opened on a multilateral basis, which means the World Trade Organisation should be the primary body.

**Senator LIGHTFOOT**—Do you establish bilateral contacts first, or do you rely on multilateral approval?

**Dr Blackstock**—We as a state work mainly on a bilateral basis. I think we have 10 overseas offices now. There are three in China, Indonesia, Japan. We are opening Malaysia fairly soon. So that gives us an opportunity to work on a bilateral basis. In terms of influencing down trade barriers, we have to work through the DFAT channel, because the Commonwealth of course has the responsibility of doing international trade negotiations, and that means trying to influence the Commonwealth in terms of the World Trade Organisation

and other possibilities as well as APEC. The fact that APEC existed and was beginning to look like a viable alternative if the World Trade Organisation—or GATT, as it was then—fell over at the end of the Uruguay Round, I think was a useful impetus in concluding the Uruguay Round. So, as I say, it is a balance of the bilateral, the multilateral and the regional trade policy instruments which are available, and, at any one time, which is most important is going to depend on how the others are working.

**CHAIR**—Mr Fraser has some words of wisdom for us on the economic crisis.

**Mr Fraser**—I do not know about wisdom. At this stage the evidence we have been collating is that certainly business is affected, and without wanting to put a too gloomy picture on it, there are opportunities which should be reaped as well. Hard data is not quite available yet. It is going to take some time for companies to look at what orders they have had and what orders they are getting in the future. The evidence we have got is coming from freight forwarders, if you like, people involved in the actual exchange of goods and services from Ports Corporation, who say that it is down, but they do not know by how much as yet.

**Senator LIGHTFOOT**—But that could have been a lucky guess. Why are they saying it is down?

**Mr Fraser**—Orders are down.

**Senator LIGHTFOOT**—No, but if I was going to guess, I would guess it would be down, too.

**Mr Fraser**—Yes.

**Mr Hallion**—If I can add there, though, looking at monitoring, obviously we liaise closely with the Ports Corp because they do actually monitor trade flows, container movements across the wharf, and they are seeing a downturn in those going into Asian markets, particularly in areas like the food area, which is one of those that has been affected. So we are seeing evidence, at least in the short run, of an impact in orders in that area. Also, finished goods—I will not name a particular company, but some of our manufacturer companies who have been looking to start new lines of business into places like Thailand, for example, have found now that because of the adverse movement in currency exchange they are no longer competitive in that region and therefore they have not established those lines of business. So there certainly is an impact at least in the short term.

There are some mitigating factors, of course. A number of contracts have already been written well before the Asian crisis and are still being fulfilled. There are obviously some concerns about credit or the capability to pay in some areas. With primary products, though that is not a direct industry of the industry and trade portfolio, we understand there has been some significant impact there and particularly—

**Senator LIGHTFOOT**—Already a volume reduction?

**Mr Hallion**—Already a volume reduction, yes, that is right. Even in areas like wheat and wool there have been volume reductions to Asia.

**Senator LIGHTFOOT**—That is what I was trying to get at, yes.

**Mr Hallion**—That is offset against the fact that our currency, of course, has also moved against the US dollar and therefore we are more competitive now in some other regions, and there are some offsetting views there. Our general conclusion—and Simon may want to add something further—is that it is still a little too early to be definitive about the impact, but there is no question that in some product areas there has been an impact on the state.

**Mr Fraser**—Some industries are arguing that the crisis has been advantageous, for example, for education whereby students from some countries may not be coming to Australia any more. That will be a trade-off between those that would have gone to say, the US or the UK, because of the depreciation. We are a cheaper alternative now, so education is an area where, again, it is early days—they are not expecting any change, any sort of net loss.

**CHAIR**—That is interesting because I would have thought there would have been some substantial impact on that education area, given not only the devaluation against the American currency but the devaluation against our currency as well, making it far more expensive.

**Senator LIGHTFOOT**—But I think you are talking aggregate, aren't you?

**Mr Fraser**—Yes.

**Senator LIGHTFOOT**—You are not talking regional losses. Obviously Indonesia is going to be some regional loss. Because of the US dollar appreciating against the Australian currency, there may in fact be an increase from other South-East Asian countries. Would that be a reasonable comment?

**Mr Fraser**—Yes.

**Mr Hallion**—The Swiss are a major example. A very large percentage of their students travel overseas, and Australia is now a somewhat cheaper destination for them than the US, for example, or the rest of Europe, or perhaps the UK for English speaking requirements. So we expect that there will be some offsets there in aggregate terms. Also, it is fair to say that our education sector here is not quite as exposed as that of other states. Our aggregate level of exposure to Asia in education services is lower than some other states, therefore the impact would inevitably be a lesser one on us as well.

**Mr Fraser**—And possibly also more diversified as well. It is not relying totally on Asia for students.

**Senator LIGHTFOOT**—Are you prepared to meet that extra diversification, should it arise?

**Mr Fraser**—I cannot comment on that; it is more for the universities, I guess.

**Mr Hallion**—Perhaps I can say that we are looking, as a government, along with the city council and the universities, at increasing our share. We actually only get about five per cent of the international market in education services and we think our natural share is about eight per cent and therefore we are looking at strategies to market ourselves to have the universities collaborate more strongly in gaining a greater share. So it is an important sector for us. We have some limitations: student accommodation in the city is still an issue, so the city council is also focusing on mechanisms we can use to increase our share of education services, particularly tertiary services. We actually do quite well in secondary and we have quite a good share, but it drops off at the tertiary level.

**Senator LIGHTFOOT**—Mr Hallion, what about mums and dads? Are they aware of trade liberalisation and, if they are, are they supporting the liberalisation to a large degree? I imagine there would be varying degrees of support if there was.

**Mr Hallion**—I think the answer to that question is that it is hard to say in the sense that we do not do surveys of the mums and dads to get their view, but there are those obviously who work in industries that are impacted, such as the automotive and TCF industry. We looked very closely with those industry sectors during the Industry Commission review, and there was certainly a very great concern in those sectors about the potential for loss of jobs and what their future would be. That translated not just at the management level but clearly down at the level of the working population in the sector. It would be fair to say that there was very wide support for the work that state government did in ensuring that there was a sufficient adjustment process for those industries before the tariff barriers were further removed, or further reduced. So there is a concern for those in the industry sectors, at least, about potential for loss of jobs if we move too fast—and faster than perhaps our neighbours. How that translates outside those industry sectors I do not think we could comment on.

**CHAIR**—Could you tell us what the adjustment processes are? Are they by way of retraining, reskilling? What sort of commitment does that place upon a state government that maybe is not placed upon the federal government?

**Senator LIGHTFOOT**—Even retrenchment.

**Mr Hallion**—Yes. Perhaps a good example of that is in the TCF sector where there are substantial tariffs in place now. They are coming down anyway to the year 2000 and then there will be a hold and then eventually they will obviously meet our APEC targets. That delay has at least allowed the industry to start considering a reinvestment cycle. We, at the state level, have put in a special TCF program to try and encourage as many of the industry as is here now to adopt benchmarking and best practice techniques, to benchmark themselves against best practice, and to adopt new techniques, to invest in new technology, to retrain and reskill workers where necessary, and to change their market if necessary to be in more niche market areas where they can compete on quality and not necessarily on price.

We are substantially involved in that industry, and the automotive industry as well, in facilitating the adjustment process, principally by encouraging the firms that are here and will remain here to adopt best practice, to reinvest, to upgrade their technology. We also obviously look at the business environment they are in to ensure that we have done everything to remove any impediments in infrastructure, and we are obviously very active,

for example, on the tax reform debate that is going on now, to ensure that we have a competitive tax system for those industries to compete internationally.

At the labour force level, we have obviously got a number of labour force adjustment programs that are in place for both the state and the Commonwealth, and it tends to be a shared responsibility to ensure that there is minimal disruption, if you like, in the friction that occurs when an industry downsizes and another one takes up. We obviously monitor those programs. They are a second-best alternative, of course, to growing the industry itself and we tend to try and ensure that if possible we grow the industry sector, perhaps by reorientating it or moving into a new phase.

The automotive industry is a classic example of that, where they are now export orientated, they have improved the quality of the vehicles they produce, and they can compete. Mitsubishi's recent very large export orders to North America, for example, have moved the US back to number one export destination for South Australia. So there are examples where, if they invest in the right technology, fix the quality of what they are doing and the industry has time to adjust, those successes can apply. We see that the TCF sector can do the same in certain elements of that area.

**CHAIR**—It seems to me that if one looks at the APEC process this is one of the real deficiencies in the process. It allows for trade liberalisation, facilitation and economic and technical cooperation, and that is all fine; but when it comes down to the grassroots level where the effects are going to be felt there is nothing that has been worked out either at the APEC level or at sublevel to APEC that will deal with the process of transition that undoubtedly will take place as a result of the changes that will occur. That, to me, appears to be one of the fundamental weaknesses at this stage.

**Dr Blackstock**—I think they have, at the last ministerial leaders meeting, begun to get to grips with that. There will be a study this year of the impacts of the liberalisation process focusing specifically on adjustment costs as well as benefits.

**CHAIR**—That is quite correct.

**Dr Blackstock**—It is carts before horses, perhaps.

**CHAIR**—Yes, one could describe it as being an uncoordinated process, at best. In your submission you refer to or express concern about the reduction in the capping of funds available under the cExport market development grants scheme, and the other thing that has occurred, of course, has been the dismantling of the mixed credit scheme in the development import finance facility. It would seem to me that both of those are important to our nation in changing our mix, and in particular getting what are very much new industries to get into the export markets overseas. It is one thing for us to see the barriers come down overseas, but it is another thing for us to be able to get into those markets. How important are the likes of the EMDG scheme or a mixed credit scheme, which we no longer have, to manufacturers in states such as yours?

**Mr Hallion**—I will start the answer and ask my colleagues to add. We do believe that the EMDG scheme, if I can concentrate on that first, is a very important scheme to

encourage companies to be more export orientated and export focused. There is quite a large percentage of our industry structure that is relatively small firms in this state, and many of them are also family owned firms. They may be very good at producing products for the domestic market, but to encourage them to export is a significant move for many of those small to medium-sized firms. The EMDG scheme has been particularly effective in encouraging those firms to be export focused and to explore export markets. To take the risk themselves has been a leap that many firms have not necessarily chosen to take.

In terms of quantum, it substantially dwarfs support given in the export market by states, so it is a very important Commonwealth program. In many other areas the Commonwealth programs under Ausindustry, for example, are not now as substantial as the state ones. In terms of the EMDG scheme, \$150 million was put into that scheme. It is a substantial contribution. It makes a substantial contribution to firms taking that first or second step into export or new export markets. We have encouraged the federal government to keep that scheme going. We welcome the recent decisions to at least keep it going in the short term. It has been capped at that figure, and it is lower than prior years, so we would obviously like to at least see it maintained at that sort of level.

In relation to the DIFF scheme, we obviously oppose that. I think we are on record as opposing its removal at the time. We do see some form of soft loan scheme with industry benefits as important. Obviously there has been a significant review of the aid program, and we are aware of the Commonwealth's response to that but we do see that that has been an important vehicle, particularly obviously for infrastructure-type agencies in the services or the product area, to gain access into markets. Of course we had been in the process of developing a water industry here in this state, at about the time that decision was made, so its timing was less than desirable from our perspective, in starting to bring that industry into an export focus where it had previously been principally domestically based.

**CHAIR**—I would imagine that the preponderance of manufacturers and potential exporters in your state, and big income earners, are small business people, as opposed to the focus that one may see on the likes of the Mitsubishis and so on. I am not trying to downplay their role and their importance to your state economy. Are the small businesses in your economy being well attended to in the APEC process, or do you think APEC itself has a focus mainly for bigger businesses as such?

**Mr Hallion**—I might ask David to perhaps complete the answer, but certainly I am aware of the APEC SME committees, and of course we held the second APEC SME conference here in Adelaide back in September 1995.

**Senator LIGHTFOOT**—You mean small and medium enterprises?

**Mr Hallion**—Small and medium enterprises, yes.

**Senator LIGHTFOOT**—Thank you.

**Mr Hallion**—Yes, small and medium enterprises. Our conference was held here in Adelaide in September 1995, and that conference certainly highlighted the concerns of small business, and there is of course direct input of small business nationally into the APEC

forum through that process. So there certainly is an ability to address some of the significant issues affecting small business through that forum, and I believe in fact the push for ease of movement of business people throughout the region came from the small business sector, who found that, if there was some form of business passport or visa, that would get them easily through customs. That push came from small businesses.

They are often the key person travelling in their business, and they want to minimise the time and streamline their efforts. So certainly that forum exists, and their issues are being addressed. If they are sufficiently important at an economy-wide level, we would also raise them. We have a Small Business Advisory Council in this state, which is the peak advisory body to our government on small business matters. That body is very active and feeds in issues to us. The state has been very active in small business policy. It recently released two policy initiatives, packages of initiatives in small business, and if there are issues that are important to take up at the national level direct, small business can do so through the SME forum. David, was there anything you wanted to add?

**Dr Blackstock**—Maybe just two specific things on the EMDG scheme as it relates to small businesses. There is a limit, a minimum of \$20,000 market development expenditure specified in the EMDG scheme, which excludes a number of small businesses that at least initially are not prepared to put in that amount of money and are not capable of doing so. We have had to start off our own state level scheme for them, the exporters challenge scheme, which complements EMDG: it does exactly the same things but has a lower limit for qualifications. So if the EMDG scheme criteria were managed downwards, that would be very helpful.

The other thing on SMEs in APEC, just to re-emphasise what Jim Hallion said, is that the reason that we said in our submission that we saw the Ecotech agenda, the economic and technical cooperation agenda of APEC, as being very important is precisely that that is where real work on technology transfer, on information exchange is being done, and not just in the specific working group on SMEs. A lot of what is being done in the tourism working group and the fisheries working group also is very relevant to small businesses, and that is why we think that that area of APEC possibly needs a bit more attention.

**CHAIR**—In your submission you express concern about the reduction in the staffing number in Austrade's regional Australian offices—in particular, you note that in Adelaide it has been reduced from 12 to four. That is a fair reduction, isn't it?

**Dr Blackstock**—My understanding of what happened is that, when Austrade had to reduce staff numbers because of budget cuts or whatever, they took the decision to keep up their numbers as much as possible in the overseas markets—which is where they are doing the real market development work—to wind down within Australia and to replace that to the degree that they could by improved technology, which enables them to get information out to businesses by technology rather than by face to face—which is fine as far as it goes, but there are times when I think firms benefit from direct advice rather than just packages, however technologically presented.

**Senator LIGHTFOOT**—But was it retrograde overall?

**Dr Blackstock**—We feel it was, yes.

**Mr Hallion**—The only upside to that, if I can say there is an upside, is that it has forced an even more cooperative approach between Austrade and ourselves, in the sense that they now no longer have the resources in the Adelaide office to act on their own and it has, with the new head of that office here, brought about a very cooperative approach. Nevertheless, there is a shrinking of the resources available, and that has meant less access for companies directly on a face-to-face basis. Also, from a regional economy point of view, we are obviously fostering a regionalisation rather than a centralisation of resources. Every head office that goes or resource that leaves the state has a flow-on impact to the other services—financial, legal and other business services—that might be drawn upon. Just from an economic perspective, it would not be a trend that we would favour. However, we did support the move to retain overseas representation.

**Senator LIGHTFOOT**—You mentioned from a technical point of view you have covered the retrenchment or the diminishment of the people from Austrade here in South Australia. In your submission you seem to agree, or even go to the point of admiring the work done by APEC with respect to economic and technical cooperation, Ecotech, and you said among other things:

It's valued by its members. It complements the trade and investment priorities and has lessons for Australia's aid program.

That is fairly comprehensive praise. Where did you see this, in wider terms? How did you arrive at that decision, in wider terms?

**Dr Blackstock**—The main issue in that was that this was drafted quite some time ago at a time when the Simons review of the aid program was still being considered by the government. Simons was fairly specific in saying that the aid program should have one overriding objective. It should have humanitarian developmental objectives, but there is really no space in it for commercial and foreign policy objectives. We were saying in this, 'Look at the Ecotech agenda where AusAID is actually putting in \$2½ million dollars,' or something like that. That is a very good example of using aid programs to support commercial and foreign policy objectives.

APEC is obviously terribly important to Australia in both those senses, and the recipients of the money through the Ecotech agenda also appreciated it. It was a win-win situation. It is an example of what you can do in an aid program if you do not take a blinkered 'this must be totally humanitarian and developmental' approach. That was the broad point that was being made in that section.

**Senator LIGHTFOOT**—Is this a consensus among other states that you have had contact with?

**Mr Hallion**—Whilst I cannot speak for all the other states, I can say that at the last Trade Council amongst trade agencies completely untying aid was something that was not favoured by certainly the majority if not all of the states and territories represented around

that table. So we certainly see that it can be an 'and'. You can achieve the humanitarian aims and you can achieve commercial benefit for the government as well.

**Senator LIGHTFOOT**—They are interlocked, aren't they?

**Mr Hallion**—Yes, that is right.

**CHAIR**—That comes back to the DIFF scheme.

**Mr Hallion**—Exactly, yes.

**CHAIR**—We are well and truly behind time in a sense, and whilst I think we could spend more time on this, I have appreciated the submission from the South Australian government. The Victorian government did put in a submission but did not appear, so it is good to get the view of a state government, and you can pride yourself on the fact that you are the ones who appeared before us. We do welcome the information that you have supplied to us.

**Proceedings suspended from 12.45 p.m. to 1.45 p.m.**

**WALSH, Professor Cliff, Executive Director, Centre for Economic Studies, PO Box 125, Rundle Mall, Adelaide, South Australia 5000**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Prof. Walsh**—I am a professor appointed jointly by Adelaide University and Flinders University of South Australia as Executive Director of the Centre for Economic Studies, which is a research unit jointly owned, and sometimes disowned, by the two universities. The centre is located at the University of Adelaide, North Terrace, Adelaide.

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

**Prof. Walsh**—I agreed in discussing an appearance today that what I might do is to focus my remarks predominantly on APEC and development cooperation, which I see as being a suppressed agenda item, if not a missing one, at least within the APEC forum. At least since the Bogor declaration, development cooperation has been on the APEC agenda as one of those three key aims that were set out and agreed to by political leaders. Specifically, though, I hardly need remind you, the declaration summarised the agreed aims of the APEC leaders as strengthening the multilateral trading system, achieving free and open trade and investment, and intensifying development cooperation in the region.

Anyone who knew something about the countries that make up the APEC forum but nothing about the activities of the forum to date, and who read the Bogor declaration as their starting point for learning about APEC, would, I suggest, expect to find that since Bogor there had been developed action agendas that give the second and the third of the aims—open trade and investment and intensifying development cooperation—at least approaching equal weight. But on closer examination I think they would discover that, while there have been subsequent formal developments in relation to development cooperation, including importantly the Manila declaration of November 1996, to date virtually all the energy and the effort involved in the APEC forum, especially at the leaders level, has gone into agenda item 2, achieving free and open trade and investment.

I hesitate to say it, but the suspicion that development cooperation was a forgotten or at least a suppressed agenda item would be intensified by reading the terms of reference for your inquiry. It could be said that reference (d) concerning future directions of APEC obviously encompasses the development cooperation dimension; but again with due respect to those who formulated the terms of reference, coming as it does at the end of a collection of three terms of reference which strongly focus on trade issues, I would suggest it might be more of an ex post rationalisation than a statement of original intentions.

I do not want to overstate the current situation in relation to development cooperation in the APEC forum. There has been some progress on that key aim 3, intensifying development cooperation in the region. That includes, as I mentioned, the Manila declaration—though I emphasise that is a declaration of ministers, not leaders—setting out a conceptual framework for an acceptable model of development cooperation; and that in turn built on references to

development cooperation in both the Bogor declaration and the subsequent Osaka action agendas, and also in the Subic statements in which the leaders endorsed principles for implementation for technical and economic cooperation. It is quite an extensive list of areas and even specific projects that were considered worthy of inclusion in an implementation program.

Doubtless others have already provided or will provide you with more detail about the content of some of those things. I understand AusAID is in the process of completing a submission. I do not know whether you have spoken to the Foundation for Development Cooperation, but they certainly have been pretty active in relation to this, including coordinating a policy dialogue group on development cooperation within APEC, which contributed quite significantly to the formulation of the Manila declaration.

It is also appropriate to acknowledge that the two-speed timetable that is agreed for trade liberalisation—setting a 2010 target date for the developed countries and a 2020 one for the less developed countries—at least implicitly involves the developed country members assisting the less developed country members to make the adjustments by giving them accelerated access, freer access to developed country markets in advance of their own full liberalisation adjustments. You could say that in some sense that is part of development cooperation, development assistance within APEC.

Of course, looking at it from a purely Australian perspective, our bilateral and regional overseas aid programs also offer explicit support. We have, through our country, programmed assistance throughout the Asian and Pacific regions, we offer extensive development assistance and cooperation, and we have specific programs targeted within the region of a regional variety—there is the APEC support fund, quite explicitly an APEC program; the ASEAN Australia economic cooperation program, a subset of APEC; and within the Pacific, a quite important policy and management improvement program that rewards those participant countries, recipient countries, who adopt appropriate policies towards improvement of governance and capacity.

As the Simons committee review of the overseas aid program said—and I should say I was a member of that review—these particular regional programs that we as Australians have all have their strengths and weaknesses. Probably that specific program on policy and management improvement is among the best that we have; the ASEAN Australia economic cooperation program should, we recommended, be abandoned unless something could be done to improve its quality. There was some evidence that it had not achieved anything like its targets, and there was also a slight puzzle about the possibility that the more developed countries within the ASEAN region—Singapore and Brunei for example—could also benefit from unintended payments of support to them.

The APEC support fund is probably in an intermediate position. It appears to be offering some substantial support, and the government in its response to the committee's review certainly committed itself to an intensified focus on both making the APEC support fund more valuable and eventually looking at the possibility of revising the ASEAN Australia economic cooperation program after its phase 3 was completed. So I have mentioned both procedures within APEC in terms of declarations; I have mentioned the timetable on trade

liberalisation as an implicit support, development cooperation assistance mechanism, and also our own bilateral and regional aid programs.

But important as all of those are, it seems to me they do not actually amount to a coherent approach within the APEC Forum to development cooperation—certainly nowhere near as coherent or effective an approach as has been adopted now through the leadership of leaders to trade and investment liberalisation. I guess that poses a question, ‘If that’s so, what have been the blockages? What’s got in the way of key aim 3 being treated as being equal in importance to key aim 2?’ The first thing that needs to be said is that there is a completely understandable desire by Australia and other leading APEC members to make sure that trade and investment liberalisation is kept in clear focus as an objective that needs to be achieved, and so the argument would go that there is a risk of cluttering the agenda, of losing the effectiveness of our clout and our determination by trying to achieve too many things simultaneously.

But it does seem to me that a targeted and coordinated development cooperation program could have been, and probably would have been seen to be, helping to deal with the transition costs that cause particularly acute pain often to the developing country members, so that the development cooperation agenda could have been complementary to, rather than a distraction from, our main objective—as seen by officials and leaders in the United States, Australia, Japan and so on—of keeping the trade and investment liberalisation program in as clear focus as possible.

**CHAIR**—Could I stop you there for a moment? Could you deal with what specific transition costs you are thinking about? Do you think about them?

**Prof. Walsh**—We do somewhat, in the Simons aid review report. The transition costs I have in mind are those that we observe here in Australia: you bear the pain before you obtain the gain. That is, in reducing tariffs or removing regulations, there are always groups within society who inevitably suffer from a diminution in their economic clout or their employment opportunities within that sector, or the sectors that are exposed to greater competition, and it takes some time for the resources that are freed up to create alternative and, we hope, greater employment opportunities.

I would note, although it is not directly the trade and investment liberalisation agenda per se, in a number of countries in the region, particularly the smaller Pacific countries, our call to reduce the size of the public sector and budgets creates particular difficulties for them. They have very little in the way of private sector opportunities. If we talk about Kiribati, where I understand a bunch of 10 Australian businessmen have been trapped, thanks to Nauru Airlines almost collapsing again, we preach to them adjustment, but that adjustment is obviously going to be one that is very difficult. They are going to disemploy people without there being great opportunities on the other side.

So the view we took within the Simons review was that the trade liberalisation, deregulation and so on, all those issues of good policy and good governance, were fundamentally important, but that we needed as donor nations to recognise that we were asking people to do things that would cause them pain, and that those people were already on average in positions in which their economic wellbeing was considerably lower than ours. Within our

own community we get an outcry, for obvious reasons, against many of those adjustments. We have chosen to say that is a transition pain we have to bear, more often than not. In the case of some of these countries, I simply take the view—and we as a review group took the view—that it would pay us to offer them some help with the transition costs. It would make it more likely that they were willing to go through the process if we were there to help them. That related to the observation and the desire to keep the trade and investment liberalisation objective in clear focus.

The second point I would make about blockages—and again I make this with due respect and I say at the beginning that it is a suspicion rather than that I have confirmed evidence for it—is that I do suspect that there is a reluctance on the part of the relevant parts of officialdom and at ministry level to surrender part of the control over Australia's aid program that would be implied in accepting a more coordinated approach to development cooperation within APEC.

At the end of the day, when we say coordination, it must mean that some things are overlapping or duplicated, or some things are being done which are less effective than others. So, to some extent, someone somewhere is going to have to give up some of the things they are currently doing—modify them, rearrange them. Coordination, if it is effective at the end of the day, is going to involve some changes to behaviour, and I suspect that, like all good program managers, Australia would probably start from the view that what we do is terrific and that everybody else should follow us, rather than be wanting to give up any of that.

To a certain extent, and I say this again not in any strident way, it does seem to me that the issue of coordination in our aid program generally is one that is, at the official level, acknowledged as being an issue but that in practice has very little actually done about it, and it is for essentially those same reasons. The problem is that, in being reluctant to surrender part of that control, we may have missed a strategically important opportunity to take leadership in the APEC region on what we mean by development cooperation and what the most effective forms of development cooperation might be. We have not lost that opportunity entirely, but it does seem to me we could have a quite strong influence on the way in which coordination occurs if we were prepared to be leaders in that process.

The third blockage possibly is that there is a lack of administrative infrastructure within APEC itself in general, and in particular a lack of infrastructure that would help with achieving the coordination of economic development assistance programs. This is not necessarily a bad thing. We know that institutions, once created, tend to develop a life and a logic of their own which can depart from the original intentions, and that observation would be made by a number of people, correctly in my view, of a number of United Nations agencies.

At this stage also I think APEC champions have been very careful to avoid the suggestion that we should build an institutional infrastructure in here for fear of causing some of the members or potential members of APEC to bolt as seeing this as a development of something that takes on a life of its own which threatens their sovereignty. All I am doing here is I am drawing a distinction between the arrangements that exist within the European Union, where at the commission level there is the provision for providing structural funds

support within the community, and also a coordinated approach to external aid of course to some extent. I think it is the structural funds to the less developed members of the community that would be the completely different model. I would say that involves a model of economic integration which is much stronger than anybody has so far contemplated for APEC, maybe stronger than any of us would want to contemplate. I simply make the point that it makes life more difficult for it to achieve coordination when you do not have that infrastructure in place.

Those are at least three reasons why we might have come to this point with little achieved on the development cooperation side. The next question that I am implicitly posing is the question of, well, what could we do? What is the future potentially for development assistance and cooperation in APEC? The first point I would make is that obviously now the future needs clearly to be seen in the context of the so-called Asian meltdown. Could I, in that context, make a couple of points which are somewhat tangential to my main thesis. You might say of the Asian meltdown that I have been surprised at how little attention has been given to how much Japan contributed to the meltdown in the first place and how much it has to do towards helping us to resolve the problems and restoring stability and growth in the Asian region. I simply make that as an observation. I think more people should be focused on that.

The second point I would make is that Australia was, in a perverse sense, a bit lucky that the meltdown occurred when it did in advance of the last leaders forum—the first leaders forum following the decisions that we made on motor vehicle tariffs and textiles, clothing and footwear tariffs. You may disagree with me, but I do suspect that we would have taken, in other circumstances, at least in club, something of a whipping from our fellow members in APEC. I understand why the SA Premier might have aggressively pursued a freeze for motor vehicle tariffs as in the short-run interest of South Australia. I suspect it is not in the long-run interests of South Australia and certainly he was willing to say that publicly and I certainly do not think it was in Australia's long-term interests to have had that freeze. That is water under the bridge, but it does have some impact, it seems to me, on our external credentials as well as on our economic performance.

**Senator LIGHTFOOT**—Not under the Hindmarsh bridge.

**Prof. Walsh**—No, not under the Hindmarsh bridge. I accept no responsibility for that. Be all that as it may, the meltdown obviously brings the question of development cooperation and development assistance back into much sharper focus for a number of reasons. One I think that will hit us reasonably soon is the budget cutbacks that are having to be implemented by many of the countries of the region in response to IMF packages and in response to the stresses more generally. That does imply a reduced capacity on their part to provide counterpart funds to the aid funds that we supply. It has been an important principle of the modern development assistance programs that we do not simply give them money to do programs; we give them money and get them to make commitments into those same programs.

**Senator LIGHTFOOT**—As a tied condition.

**Prof. Walsh**—As a condition, if you like—a condition which is about ensuring their sincerity in wanting us to do those sorts of programs, and also ensuring to the greatest extent we can that, when our program and our funding is finished, there is something there within the recipient country, its bureaucracy, its communities and so on, that can continue what we have helped them to start. It is very much part of sustainability of development assistance in its broadest sense. I do not mean in an environmental sense; I mean in a practical sense, in an administrative sense and in a sense of ownership by local communities that they have committed their own resources. It seems to me a very sensible principle within the aid program.

The question that will arise for us is what do we do as a community, not just as individual donors but as a community of donors when the recipient countries come to us and say, ‘We’ve had to cut our budget. How the hell do we match your contributions?’

**CHAIR**—Do you know the extent of that problem?

**Prof. Walsh**—The extent of the problem in principle is the extent of the amount of funds that we put into—there are already some suggestions, I understand—

**CHAIR**—Do we know the quantum of dollars though that will be affected?

**Prof. Walsh**—The only way I have of answering that for you is to suggest that it could be as large as the quantum of dollars that we put into the Asia-Pacific region, which is somewhat over half of our total aid program, which in turn is \$1.1 billion nowadays, so it can be \$500 million worth. That is not going to be an accurate number because there are some programs probably where we do not have counterpart funds. They may well say, ‘Yes, we’re happy. We can counterpart some but you’re going to have to come in and help us with the rest.’

**Senator LIGHTFOOT**—Isn’t it somewhat diluted by the fact that Papua New Guinea receives a significant part of that?

**Prof. Walsh**—Except that we now give less than half of our aid to Papua New Guinea as untied budget aid—the transition from fully untied to fully tied is now more than halfway through.

**Senator LIGHTFOOT**—Is not it the biggest single grant of the entire budget?

**Prof. Walsh**—It certainly is. It is \$300-odd million a year, so it is a fifth of our aid program. That makes a difference but, as I say, the untied component of it is probably now of the order of \$100 million.

**Senator LIGHTFOOT**—We should shut the door when the horse has bolted.

**Prof. Walsh**—To some extent, yes. We have been going in the right direction with Papua New Guinea, it seems to me. The only people who dispute that are actually the political leaders. When we talk to the individual ministers as well as bureaucrats and so on, as well as business people and people in the community, they all said that progressive tying

of the aid program—the progressive tying in the sense of making it project and program specific rather than untied—was a highly desirable thing. In current budgetary circumstances, including largely because of the Bougainville situation, we really did need to bolt down the Papua New Guinea government to commitments to supporting particular sorts of programs.

Even then, we have had to be pretty flexible. At one stage it was an important principle of the aid program that we would help to construct roads, but the obligation that was then placed on the recipient government was maintenance of the roads. In Papua New Guinea maintenance of roads has completely gone by the by, so we have said, ‘The most important thing we can now do is actually help—as long as you’re in there with us—to maintain the roads that you’ve got. The question of building more is another issue.’

**Senator LIGHTFOOT**—I do not want to digress, but that is probably more a manifestation of a premature independence than the lack of will.

**Prof. Walsh**—Yes, I think most people would offer at least some support to that suggestion. I would qualify it to the following extent: if you track the performance of Papua New Guinea in macro-economic management terms and in budgetary terms, it actually was not doing too badly effectively until the Bougainville situation. In macro-economic management it was adopting principles that we certainly agreed were appropriate principles, but of course it had significant revenue flows coming in from the mines, it had a relatively small defence budget and both of those situations were reversed completely.

**Senator LIGHTFOOT**—BHP’s Ok Tedi exacerbated the problems ultimately.

**Prof. Walsh**—As I see it, as a purely personal observation, until the Bougainville situation is resolved, we are basically in there with our aid program doing the best we can, knowing full well that it is not as good and as effective as we would like it to be because the capacity on the Papua New Guinea side has been so much diminished and so much damaged by the struggle over the Bougainville situation.

**CHAIR**—Could I just fly that point about the aid program. In effect what you are saying is that these economies that have been affected will come to us and say that they can’t match dollar for dollar, and we have then got to turn around and say to them, ‘Well, that’s bad luck; we’re not going to proceed,’ or ‘We have got to find extra dollars to make sure that the program does proceed.’ If we say to them, ‘Bad luck, we’re not going to proceed,’ then that does nothing to enhance our relationships with those economies. So really the only alternative that we have got is to make extra aid dollars available to assist those economies.

**Prof. Walsh**—I should avoid allowing you to put words into my mouth.

**CHAIR**—I am talking in fairly broad terms.

**Prof. Walsh**—Yes, I agree with the thesis you are putting. There are two things. One is we will have to abandon the principle of counterpart-funding to some extent maybe. That is the pressure we will be put under. The other is, yes, since the counterpart funding was important to the effectiveness of the programs, we will be under pressure to find more money within that region to ensure that we go ahead. There will be some sort of trade-off.

We will do less than we would like to do if we had counterpart funding, but we might end up putting more dollars in than otherwise.

**CHAIR**—So whilst we might restrict the number of projects or change the money mix around—

**Prof. Walsh**—We are going to be under pressure.

**CHAIR**—I was trying to be fairly bland about it without getting into all the permutations and combinations, but suffice to say that there is a time of reckoning arriving for the Australian government because it will be seen as part of our role, not as a citizen of Asia, necessarily, but as a leader within APEC.

**Prof. Walsh**—Sure, and I think that is part of the second point about how development cooperation is going to be brought into sharper focus by the situation. We clearly are in a position where we are now going to have to go back to that original statement of agenda and say, ‘Yes, we really do have to offer more technical cooperation to these countries to help them through the structural adjustments.’ Now, that might be about structures of good governance, capacity building, deregulation and, in some cases for the banking sectors, how to reregulate them, effectively regulate them, and trade liberalisation. I would say on that again the argument will be put—and it is perfectly valid—that our contribution really matters.

But if you look at, for example, the contribution that we make to development assistance in Indonesia, it is two per cent of the total funds, as I recall, that get into the Indonesian economy from all donors. At the margin, it gives us a bit of clout, but if we do not have a mechanism for coordinating the technical cooperation and so on we will be in a position where I think more than usually we will lack effectiveness in helping them to achieve their adjustment. So again I would argue that the capacity within APEC to get some more coordination would be a very valuable one.

So I am saying, if you like, the meltdown really sort of constitutes a situation which is both a challenge to existing aid programs and principles but is at the same time an opportunity to progress what has so far been progressing relatively slowly, and that is the development cooperation and coordination agenda in APEC, a bringing together of the interests of the major donor countries within the APEC forum. It could end up being very valuable. It is a pity that we have not had it before.

**Senator LIGHTFOOT**—Which is the basket case of the APEC members, particularly long term, if they are co-related?

**Prof. Walsh**—Which is the basket case?

**Senator LIGHTFOOT**—Yes.

**Prof. Walsh**—Well, within the APEC region I guess the most difficult cases are actually the smaller countries of the Pacific. They matter less in terms of future economic develop-

ment and trade opportunities, obviously, than most, but that is where the most significant difficulties are.

**Senator LIGHTFOOT**—What about countries around 200 million in population?

**Prof. Walsh**—In fact if you look at what we had to say in the aid review, we took the view that countries like Indonesia, the Philippines and China should actually be on our list of potential graduates from our aid program. Clearly they are still relatively poor countries—they are poor by our standards—but they are becoming rich relative to many other countries of the world, and if we care about putting our dollars where they are going to assist poverty most, then you begin to ask questions about those countries.

They have regional difficulties—eastern Indonesia relative to Java and Sumatra, or the southern Philippines relative to the rest, or obviously the western provinces of China relative to the richer eastern provinces—that we can help with, although I have another personal view that says that there is a risk that with us jumping in and saying, ‘We’ll help with your problems in eastern Indonesia’ we are actually helping them to avoid facing up to what is effectively a lack of effectiveness or will on their own part to transfer resources from the rich to the poor.

**Senator LIGHTFOOT**—Is that in part because eastern Indonesia is closest to Australia and therefore we feel more guilt-ridden, perhaps?

**Prof. Walsh**—To some extent.

**Senator LIGHTFOOT**—Or is it self-interest that would do that?

**Prof. Walsh**—I think it is largely a combination of the humanitarian response—I mean, that is where the poverty is greatest within Indonesia, as a country we are helping—and self-interest. That is closest to us and if there are ever going to be migration pressures, that is where they are going to come from, the poorer regions where the health risks are likely to be greatest, and so on.

**Senator LIGHTFOOT**—And economic refugees, Professor—would you put them in that category in terms of migration?

**Prof. Walsh**—There may be economic refugees. That would certainly be a risk that we have to face up to. It is presumably one of the reasons why we continue to target a large proportion of our aid program into the South-East Asian region, because we want to avoid the pressures that are associated with that; it is not necessarily that we want to avoid migration. We do not want the pressures that come from an autonomous flow of economic migrants as opposed to a controlled flow.

**Senator LIGHTFOOT**—When you talked about your aid review, was that part of the Simons report that was reviewed by you about a year ago?

**Prof. Walsh**—Indeed, yes. That was the one clear objective report.

**Senator LIGHTFOOT**—Has that been upgraded since then?

**Prof. Walsh**—The government has made a formal response but it was in November that the minister made his response, although that would have been within the context of knowledge of the events unfolding in Asia. It would have been in advance of particular strategic thinking about how the aid program or the development cooperation program might need to be reset, retargeted, rethought, in order to help in dealing with that particular problem.

**Senator LIGHTFOOT**—That was released about the time that the currency crisis—or crises—were about to manifest themselves.

**Prof. Walsh**—We could be accused of having been as optimistic as many others about the future of many of the countries in the region, sure.

**Senator LIGHTFOOT**—Yes. With reference to that report you contributed to back on 11 July, how is that priority for aid now decided on given the effluxion of time? How was the priority of aid decided on? Has there been a change?

**Prof. Walsh**—Not that I am aware of.

**Senator LIGHTFOOT**—Do you think there should be a change?

**Prof. Walsh**—I would think that AusAID would be working pretty aggressively on that and I would be surprised if in budget context, which is on with a passion at the moment, they were not strongly arguing both that they needed more money for the aid program and that they particularly needed to be able to mobilise more resources into the South-East Asian region in particular.

**Senator LIGHTFOOT**—So the priority has not changed but the quantum of aid has altered?

**Prof. Walsh**—Implicitly the priorities would be changed, wouldn't they, whether you get the money by getting more money and putting it all into South-East Asia, or you get it by removing some from the softest parts of the program.

**Senator LIGHTFOOT**—But in terms of the priority in July under the Simons report, the country-by-country priority remains somewhat the same, notwithstanding the currency crisis?

**Prof. Walsh**—If you are saying at this moment AusAID is spending according to the pattern that was established prior to our aid review, by and large that would have to be true. It would have to be true, not because there is not a will to change it but because there are huge lock-ins. The extent to which you can actually change priorities within the aid program rapidly are quite slight, and that is because we are doing damn good things, for the most part, in these countries, and the commitments that are made are not, you know, 'We'll do this today.' It is a three-, four- or five-year commitment.

**Senator LIGHTFOOT**—When you say ‘damn good’, does that mean alleviating poverty within those areas?

**Prof. Walsh**—We argue that there are clear case studies that you can come up with where it is dubious whether programs actually were as effectively targeted at poverty reduction as they might have been, but that on the whole the program’s heart and mind has been in the right place. To the extent that there are problems, some of them have to do with monitoring, and some of them have to do with, frankly, the assertion of political priorities over the top of what AusAID as a professional agency would have chosen. It is the right of ministers, prime ministers, foreign affairs or development cooperation ministers, at the end of the day to say, ‘This is the priority we attach.’

What we were trying to do in the aid review was to get everyone to focus more sharply on poverty as the key requirement, and to some extent to build around AusAID a bit of a protective barrier that would stop prime ministers from walking in and announcing a major bridge project as the priority when it could be demonstrated to be not the most effective way of alleviating poverty in a recipient country.

**Senator LIGHTFOOT**—So that means that you don’t lean towards indirectly alleviating poverty in a particular country by giving aid to commercial interests? Is that what you are saying?

**Prof. Walsh**—I would not give aid to commercial interests.

**Senator LIGHTFOOT**—There was a big bridge built in what was formerly Indochina. I think it was called the Friendship Bridge. That was largely given to Australian construction firms. One might have said that was some aid to Australian construction firms, but that would help alleviate poverty to some degree, would it not?

**Prof. Walsh**—Well, it would alleviate some Australian poverty.

**Senator LIGHTFOOT**—No, I meant the purpose of the bridge—

**Prof. Walsh**—The bridge would help, yes, sure, as with the My Tuan Bridge in the Mekong Delta where you could establish—I think unambiguously—that that will help with the economic development and therefore the reduction of poverty. The question is whether if you had whatever sum it was—\$50, \$100 or \$150 million—over again, you would say, ‘That is the way that we think we can best help and most effectively reduce poverty.’ The question you are raising to some extent is actually about a different dimension of the aid program, which is that we have a significant part of it tied to Australian suppliers.

**Senator LIGHTFOOT**—Yes.

**Prof. Walsh**—But although we argued for untying or at least moving towards more untying, in principle the provision of goods into the aid program is not tied. That is, those who win the contract to manage the construction of a bridge or the delivery of an education program are not obliged to purchase Australian goods. There is an obligation that is being loosened under the government’s response to have Australians manage the projects—if we

are talking about technical cooperation, they are the team. Australian services, if you like, have been pretty much a tied component to the aid program.

**Senator LIGHTFOOT**—But isn't there a moral imperative—if I could use an example—for Australian aid that is given as apparently untied that if that country wishes to purchase, say, wheat, then it purchases that wheat from Australia, and not the slightly cheaper wheat on a subsidised basis from the USA?

**Prof. Walsh**—The wheat example is a case where we have got a clearly polluted market and, yes, I guess the argument would be strongly put that we certainly should not be helping countries that are already subsidising, as you say. You can call it a moral imperative if you like. In other circumstances, though, the argument we put is that if we are serious about our aid program as being about achieving maximum poverty reduction through sustainable development then we should be willing to accept that there are circumstances in which Australian goods and services would not be purchased because you can get a bigger bang for your buck by not doing so. We benefit, too. We benefit out of getting the fastest growth we can for the recipient countries, particularly those who are our regional neighbours, and that is where most of our money is going.

**Senator LIGHTFOOT**—So over and above being seen as just good neighbours, good fellows, we get a benefit from that over and above the nice warm, fuzzy feeling we get about distributing aid.

**Prof. Walsh**—Good God, yes. I mean, it is what a number of people, including former Prime Minister Malcolm Fraser, have called enlightened self-interest.

**Senator LIGHTFOOT**—That is an oxymoron.

**Prof. Walsh**—We incorporate a reflection of our humanitarian concerns with a recognition that there are flow-back benefits to us from having a world which is more stable, more peaceful, growing more, and so on, and we would be mad not to recognise that, and certainly for the aid program in public perception it seems to me that is a very important thing for us to be able to establish, because, by and large, it seems to me support for Australia's aid program, while it is quite extensive, according to surveys, is very shallow, and that more often than not the talkback response or the taxi driver test or the front bar of the pub test will get for you the claim that charity begins at home, and it should damn well stay here, too—what are we doing spending our money somewhere else?

**Senator LIGHTFOOT**—What you wouldn't get from the taxi driver or the bloke in the front bar of the corner pub is: is APEC then the best forum in which to test for aid and ultimately distribute it?

**Prof. Walsh**—I answer your question by coming at it slightly differently. APEC is a forum we regard as being of particular significance to us in a regional sense, and we regard it as being significant I think for a variety of reasons, but again they have to do with this enlightened self-interest. It is about the context, the trading context, the security context, and so on, in which we live and operate and, having made that decision to be part of a club in which the levels of development are vastly different, then we are almost obliged, if you like,

in order to keep the club together, to have a significant development component. Why does the European Union have a significant—it is not huge—structural fund, as they called it, post-Maastricht cohesion fund? The answer is that you keep the club working together by helping to ensure that everybody is able eventually to get up to a reasonable pace.

If, let us say hypothetically, Asia had not faced the current meltdown, we argued that a number of countries that were already receiving substantial amounts of aid from us should have been graduated from the program, or considered for graduation progressively, and part of our argument was that there are many other recipients, including potential recipients in other parts of the world, of which Africa is the most obvious—that we needed to be able to assemble resources to assist in time. So APEC would be an area in which I would hope development cooperation would be a diminishing activity over time.

I think we have a line in the report—I certainly wrote it, but I do not know whether it survived at the end of the day—that the business of an aid program is to do itself out of business. If it is successful, it has helped to encourage sustainable economic development, and therefore we do not need to be in the business of development assistance any longer. That is our objective. So within the APEC region, the extent to which I would argue for greater focus on development cooperation as not just a key aim, but an effective working objective of APEC, is very much again in our enlightened self-interest.

I will just make one more point about this, or perhaps a couple of brief points. I talked about the need for coordination to address some of these stresses and problems and so on, but of course APEC itself is nothing like all of the countries that are significant donor countries into the Asia-Pacific region. The Japanese and the Americans and we in aggregate terms are obviously not insignificant donors, but the Europeans and the Scandinavians are also putting significant amounts of money into the region. So, to the extent that there is a need for coordination, it is a need which exists in the aid program generally, and we had several meetings in countries with other donors, in which somebody turned up and proclaimed themselves to be the coordinator—usually somebody from the UNDP but, when you tested, effectively there was no coordination.

So even within countries, whether talking about a Fiji or an Indonesia, we assume the coordination is likely to be occurring through their own development agencies, the Bapanas and so on, but in fact it is not very effective. But for these purposes I am saying we need an APEC coordination mechanism, and we also need a mechanism to try and encourage other donors, individual countries and the European Union and so on to be part of that story too. That means we have probably got to work more effectively through the DAC in Paris, to some extent.

Because APEC does not have and is not intended to have an administrative or institutional infrastructure, you ask yourself the question, ‘Where could you most effectively achieve the coordination?’ It could be by one of the countries nominated as being, if you like, the lead coordinator. That seems to me on the whole unlikely, given the politics involved in that. The other alternative that occurs to me would be the possibility of attempting to use the Asian Development Bank as the coordinating agency. It would avoid us trying to create a new bureaucracy, although you would have to ask yourself the question: to what extent

would the ADB be in the business of delivering the objectives that we really want, if it was given that coordination?

As a final point about all this, I think it is in Australia's interests to try to raise the profile of development cooperation within the APEC agenda. It is a more narrow self-interest of ours. In areas where we are expected to be big players, others are withdrawing. The Pacific is perhaps the classic example of that, but there is withdrawal going on within the region generally, and it would be in our interests to try and stem that to the extent that we can by getting some cooperative agreements with other donor countries within APEC. I do not know how successful that could be, but it does seem to me to be an issue worth putting on the agenda.

In all those ways, what I am simply saying is I hope that when you come to address the fourth of your terms of reference, the future, which is where this I think really lies in terms of your terms of reference, you will certainly give serious consideration to the development cooperation dimension. I am probably not the only person who is talking to you about this, but it does seem to me, as I say, to have been the suppressed agenda item within APEC, and one that is worth quite a deal more attention than we have given it to date.

**CHAIR**—Could I just follow on post-Simons, post the government response to Simons. Given the meltdown crisis that we now have—I have raised with other witnesses the issue of the value of a mixed credit scheme, which has been abandoned, to all intents and purposes—is it appropriate with the meltdown crisis now there for us to reinstitute a mixed credit scheme as being a viable, proper way of assisting the APEC agenda?

**Prof. Walsh**—First of all, this discussion can sometimes become confused by definitions. I am prepared to say that—this is my personal belief; it is not just a committee outcome—in the aid review we argued that there is a place in the Australian aid program for a soft loan scheme, or at least potentially a place for such a scheme. By soft loan scheme we mean literally that we are prepared to put some of our aid money into effectively subsidising the interest rate that is payable on there and extending the term. The scheme that we previously had in Australia, DIFF—

**Senator LIGHTFOOT**—What does that acronym stand for?

**Prof. Walsh**—Development import finance facility. The DIFF scheme was a mixed credit scheme in the sense that it was a tied scheme. It actually involved us subsidising through EFIC specific Australian proposals, and the view I take is that getting rid of that scheme was a good thing. It was a scheme that was regarded as not really serving development objectives, but really serving another set of objectives, the commercial objectives of a number of companies in Australia, right from its start, and notwithstanding reforms that have been made to it over time, basically needed to be got out of the way, so that we could start again with a scheme that would be different to some extent in design, but would still provide us with a capacity for offering soft loans, which is ultimately what we are talking about here.

The circumstances in which soft loan schemes are most useful, of course, are those in which you have countries that do have repayment capacities. While my judgment would be that Indonesia, the Philippines, Thailand and so on will return to positions where that is true,

just at the moment you would look like you were not doing what the international community thinks we should be doing in these circumstances, not making additional loans to them, but that we are offering them aid, making a grant, although, as I have often said, in a sense a grant is simply a non-repayable loan, if you want to stretch the logic that far.

There are some countries that you would not want to give loans to at the moment in any circumstances, and I might suggest that Vietnam is in that position, where its debt servicing costs are sufficiently high that making additional loans could only help probably to drive it over the edge. There are some countries like Indonesia for which pre-meltdown you would have said, 'This is quite a nice vehicle, and they certainly like it.' With the Chinese I would be surprised if there is not enormous pressure on AusAID to persuade the government to introduce a new scheme. At the moment they are investigating whether it is possible to set one up under more commercial circumstances, but just at the moment I would not think that was a particularly valuable sort of instrument for those countries which are going through all this adjustment pressure but would be in a few years time.

**Senator LIGHTFOOT**—I just wonder whether, given Australia's relative position economically to some of the major trading partners—Japan, China, the UK, the USA, even India—we should not be sitting on our hands, whether we are not being too ambitious in establishing ourselves as a leader in the hemisphere, whether we are biting off a little more, in economic terms, than we may be able to chew, or alternatively, whether we may be in some plight ourselves in that we are overreaching ourselves in grants and aid and what is expected of us as a result of what has become almost a preoccupation by successive governments with respect to aid. Is that a danger?

**Prof. Walsh**—I would find it hard to say that we were preoccupied, excessively preoccupied or excessively generous in that our aid flows at \$1.1 billion a year. It is one per cent of the federal budget.

**Senator LIGHTFOOT**—I was thinking of an aggregate of aid, Professor—even though they are guaranteed assistance—to Thailand, Korea and Indonesia. They go well beyond that \$1.1 billion aid that you speak of.

**Prof. Walsh**—That is true, but it is still not a very large number. I do not think we have exposed ourselves in any dangerous way. There are people who argue that, given our own economic circumstances, whether it is the unemployment rate or the size of our international indebtedness or whatever, we may be doing more than we should. Although I am essentially a strongly market oriented economist, I take the view that we have a responsibility to the rest of the world, in particular focused in our own region on aid issues, and that it is strongly in our self-interest. If nothing else, let us be clear that this is really about our own front-line defence. This is about protecting us against imported disease, imported drugs, economic collapse, the possibility, as somebody mentioned, of economic migration pressures and so on. So if we only want to bring it down to that pretty narrow self-interest stuff, there are big bangs in being involved in the aid business, in the development cooperation business, and if you wanted to make the point—

**Senator LIGHTFOOT**—And a big bang in terms of economics or a big bang in terms of geology?

**Prof. Walsh**—I think there is a big bang in terms of economics. Even at the margins we can make quite a significant difference economically to the performance of countries in the region. I think there is a big bang in terms of our own self-protection, whether that is about health or security at the other end of the spectrum.

To come back to the orders of magnitude, of course, the proportion of our GDP which we have been putting to the aid program has quite strongly diminished over the last decade or so under pressure from budget reductions and so on. Governments have felt that it is appropriate to cut back and to try and reprioritise and so on.

It seems to me the really fundamentally important question here on which I can make a contribution—the other is about political judgments—is asking whether we are targeting it as effectively as we could in terms of our national interest, in terms of self-interest, and in terms of those humanitarian objectives that I think we also share. To a certain extent pre-meltdown, I would have argued that we were being relatively ungenerous in some African context relative to some of the countries in our region that were receiving it.

We certainly need to keep focusing on the fact that while the largest numbers of poor people are in our region at the moment, the growth rate of poor people in Africa suggests that Africa will overtake that. Our trading interests in the Indian Ocean, South Asia and around the east coast of Africa also suggest that it is in our self-interest to maintain some sort of focus in Africa. I suspect that the current pressures will see—within the next budget—some further reduction in the help that we give to Africa so that we can put more into South-East Asia in current circumstances.

**Senator LIGHTFOOT**—Perhaps looking at reducing the combined sector debt at 200 billion. It is something of a worry to some economists, anyway.

**Prof. Walsh**—There is a debate about that within the profession, as you are aware.

**Senator LIGHTFOOT**—Yes. Can I just get on to a statement you made a few moments ago that I was very interested in. You said that not many people understand the part Japan played in the Asian meltdown. America, to me from a political perspective—I take an isometric view of these things, but from a safe position as a politician; having said that, I always reserve the right to change my mind—has always had a healthy dichotomy of interests with Japan. It used Japan as a bulwark against the yellow and red hordes that were going to come across the Pacific and wreak havoc upon America and its allies.

But with the vanishing of the Cold War, is it valid to have a balance of trade so much in favour of Japan, and now with China, that exceeds \$100 billion, and at the same time have a conversion rate on so-called floating currencies between the yen and the US dollar at 140— or thereabouts—to the US dollar? In other words, where are we going in an APEC sense with trying to balance that massive trade debt in favour of Japan, in particular, and one that is growing and becoming at least worrying with respect to China?

**Prof. Walsh**—There is a difference between an answer to that question that a qua economist would give and the answer that I would give, being a political economist, to some extent. As an economist I would say that focusing on bilateral trade flows and the deficits

that flow from them is inappropriate. The issue for the United States is: is its balance of trade, balance of payments more generally with the rest of the world, in balance on average? As long as it is saying that if you accumulate the surpluses over those countries which have got surpluses and they offset the debt with Japan, you would expect the currency values, given they are market driven nowadays, to reflect the extent to which that, rather than the particular position with Japan, is true.

The focus on Japan arises from some things that have to do with economics. It arises from the extent to which the Japanese are still big protectors of substantial parts of their domestic markets in various ways—whether openly or by other rather more devious means. But again, at the end of the day, whatever the world, we have to live with what it is and get on with business. You want to ask yourself: is it really worth worrying about that deficit? It matters more in politics than it does in economics, it seems to me. It is a sufficiently big thing that domestic companies and congressmen and so on in America are consistently going to complain about it. It is part of their duty as politicians, as you would be well aware, to make representations on their behalf, whether or not in some broader rational economic sense—and I do not mean rationalist, I mean rational economic sense. In my view it is not a problem.

**Senator LIGHTFOOT**—So if you had a different view to what is, say, an economic rationalist's aspect, would that make you an economic irrationalist?

**Prof. Walsh**—I have always said I prefer to be called an economic rationalist rather than the apparent alternative.

**Senator LIGHTFOOT**—Yes. I know this is a political question that involves economics, so it is probably right down your particular leafy street, Professor. Isn't it about time that Japan paid its own way in terms of its defence and footed a large bill that America pays out each year there?

**Prof. Walsh**—I am not sure that it is a question that is particularly down my leafy path. The leaves seem to me to be scattered all over the ground and I could fall base over apex trying to answer it. Again, as a purely personal view, yes, maybe it is time that the Japanese took on bigger responsibilities in relation to regional security at their own expense. The point I was making in a sense about Japan is somewhat counter to that. It seems to me that basically for seven or eight years Japan has been facing a problem which is essentially identical to that which now the South-East Asian countries are facing—the bursting of a property price bubble and all that flows from that in terms of the pressures on their banking system. They have attempted to avoid facing up to that and until they do we will have continued instability in the region. This may not be a particularly good time to be saying to them, 'Pump more money into defence,' when we really want them to be in a position where they can get their banking system sorted out, restructured, and the indebtedness down, so as to help bring more stability into the region as a whole.

**Senator LIGHTFOOT**—Isn't it an ideal time now with Japan expecting zero growth in their fiscal year to come to grips with some of that imbalance of trade? In my view it is going to cause problems. Whether they are politically based entirely or whether there is a socioeconomic validity before that—

**Prof. Walsh**—But why wouldn't we run into essentially the converse problem in relation to the Australia-Japan relationship, where we have had a positive balance of trade with the Japanese for a significant number of years? In terms of orders of magnitude it differs enormously I suppose, but to us it is quite significant. Why don't they come beating on our doors saying, 'Buy more of our stuff'?

**Senator LIGHTFOOT**—I guess you have competing economies with Japan and America, and you have a raw material supplier on the one hand with a highly sophisticated secondary industry on the other.

**Prof. Walsh**—Sure. I would certainly agree we could reduce the degree of protectionism in Japan and, if that then resulted in a less favourable balance of trade for the Japanese vis-a-vis the Americans, that would be a desirable change. But I do not see any particular value in trying to force a change that has nothing to do with the underlying economic logic. The forces that will out eventually, and undo anything you otherwise tried to do will say how big the trade balance between the US and Japan should be. That appropriately has to do with their relative competitiveness, their relative complementarities in trade, and their position vis-a-vis the rest of the world.

**Senator LIGHTFOOT**—So you do not see it as destabilising anything to any large degree?

**Prof. Walsh**—No.

**Senator LIGHTFOOT**—To any significant degree?

**Prof. Walsh**—No, I do not.

**Senator LIGHTFOOT**—That is my main concern.

**Prof. Walsh**—I do not think that in terms of the relationships within APEC that matters very much at all.

**Senator LIGHTFOOT**—Do we have we too many eggs in the APEC basket?

**Prof. Walsh**—I am saying we have not got enough in a sense. I am saying we should be giving more emphasis to development, cooperation—

**Senator LIGHTFOOT**—So Asia is where it is at for Australia?

**Prof. Walsh**—Yes. I also have something of a view that I have never pushed to extremes—that we should probably join any club that will have us a member if it benefits us in terms of potentials for trade and so on.

**Senator LIGHTFOOT**—NAFTA would be a bit hard, I assume.

**Prof. Walsh**—NAFTA would be a bit harder and the European Union sounds to me like a potential disaster, except we might then get some subsidies for our agricultural products.

But the logic of my position is simply not to get all of our eggs in one basket. People are now beginning to realise that, by focusing so tightly on the Asian region in terms of our trade growth, even individual companies have got themselves locked into positions where with the change in market conditions they are not finding it very easy to turn around and say, 'Where are the alternatives?' South Africa is our fastest growing export market; why aren't we in there in a bigger way? It is still Europe and North America who are important to us.

The problem is not that APEC is not important to us. We should continue to give a very high priority in terms of our policy approaches, but we have to get that balance which I think the current crisis will help us to achieve in terms of our relationships with the rest of the world, both at the political level and at the economic level; a balance that says you spread your risks to the greatest extent you can, or at least you spread them to a rational extent. We should be exposing ourselves to other regions and other options. It would actually be quite interesting to investigate what sort of terms there would be for some form of cooperative arrangement with NAFTA, for example.

**Senator LIGHTFOOT**—I very much appreciate the discussion this afternoon and your answers. It has been very interesting indeed.

**Prof. Walsh**—Thank you.

**CHAIR**—Thank you, Professor Walsh. We do appreciate the time you have given to us this afternoon and the way your evidence has been put together in a report. Thank you.

**Prof. Walsh**—Thank you for the opportunity.

**Proceedings suspended from 2.58 p.m. to 3.09 p.m.**

**LEAVER, Mr Richard Lawrence, 24A Shipster Street, Torrensville, South Australia 5031**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Mr Leaver**—I am appearing in a private capacity although I teach international relations at Flinders University.

**CHAIR**—The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a submission from you which it has just received. Are there any alterations or amendments you wish to make to that document at this stage?

**Mr Leaver**—No.

**CHAIR**—I now invite you to make an opening statement and then we will proceed to questions. So that you are aware, I intend to wrap these proceedings up as close to 4 p.m. as possible.

**Mr Leaver**—Excellent. Since the submission has just arrived before you, I thought it would probably be a good idea to talk for 10 minutes or so about what is in it. By way of self-explanation I should say that, when Paul rang me up, he seemed particularly keen to get a political scientist, an international relations person, to talk to and give evidence to the inquiry, so I spent some considerable time thinking what was it that a political scientist might have to say about your terms of reference. I hope when you get a chance to read it that I do in fact go some way towards addressing that.

Political scientists, of course, come in many shapes and sizes—and indeed deceptive ones at times. I did notice that an Adelaide based political scientist has turned up at the Constitutional Convention more recently as a man of the frock—Dr Hepworth from the University of South Australia.

**Senator LIGHTFOOT**—Is there a contradiction with these two professions?

**Mr Leaver**—No. We are a very broad church. I share with Dr Hepworth an interest in miracles—at least Asian ones—but I would not go quite as far as he does. The starting point of my argument is to begin from what I call the large sucking sound that seems recently to have engulfed East and South-East Asia and the appearance of black holes over currency and financial markets, and to make the observation that these seem to, in fact, validate the expertise of political scientists on questions of Asian development somewhat.

Over the last two decades it is fair to say that students of Asian development and the Asian miracles have primarily been economists, and very pure economists for the most part. The moral for political scientists and students of power has simply been, ‘Get out of the way and let the market work the miracle.’ It seems to me that that is one of the victims now of

the recent events in South and East Asia; that nobody in the future is going to be tempted to write the histories of national development, or indeed the histories of regional integration, without some kind of reference to the political underpinnings of those. So I would, in a broad sense, take what has happened in recent times in East and South-East Asia as, to some extent, empowering political scientists to speak again on these kinds of issues in a way that, by and large, they have not.

With that in mind, I have tried to say, ‘What is it that political scientists, international relations scholars, might have to say about APEC in particular?’ That is a process that I have followed quite closely over the last seven or eight years. Essentially my submission is an attempt to put before you a political interpretation of APEC and, indeed, of the framework in which you might think about the APEC process in a way that will help you make some sense of what political scientists might say.

I begin by noting that it seems to me that in large respects the APEC process itself, as set up in 1989 and to some extent reconstituted and focused on trade liberalisation in 1993, seems to be facing a very considerable challenge—that is probably an understatement—in dealing with the events that are now unfolding in East and South-East Asia. If the East and South-East Asian economies, particularly the most affected countries, are to trade their way out of the problems of insolvency and debt that they are now in, there is a certain presupposition about the willingness of the advanced capitalist world to absorb extraordinary volumes of imports that would be necessary for that to occur, and this at a time where, as I read the American market and much of the advanced capitalist world, the drift of sentiment is in the opposite directions towards one form or another of closure towards the Third World and towards Asia.

So in relation to the trading solution, there are going to be real political problems about that in the not too distant future. I also note that the other way that crisis was overcome, and perhaps the way that was validated to some extent by the debt crisis of the 1980s, was by massive devaluation of the United States dollar. Probably from 1985 to 1987 the massive decline in the value of the US dollar was the main thing that helped Latin American countries overcome their debt problems at that time. That seems to me to also pose political problems at the moment. We have a market that runs the other way, most obviously. One way or another it seems to me that politics is implicated in the genesis of the East Asian crises and will have to be implicated also in any solutions to them that emerge. As a political scientist I take comfort from that. We have got something to say to our economists. What is it that we want to say having established our credentials?

The bulk of my paper is an attempt to put before you an interpretation of what a political scientist might say. It is often said by APEC economists and scholars of APEC in this country that essentially APEC could write its own political history as it went along; that it was starting with a blank slate politically, and that the closer, more open economies of the Asia-Pacific region, in so far as they integrated more with one another, would create self-sustaining political mechanisms that would keep the whole APEC process afloat.

So there is this kind of blank slate *tabula rasa* argument that floats around the edges of APEC literature, usually from economists, that more or less says there is no relevant political history, APEC will write its own history, and it will be essentially a political expression of

the logic of free markets. What my submission is designed to do is to suggest to you that that is in fact wrong; that politically speaking there always has been a definite, quite concrete political structure to the pattern of economic and strategic interactions in the Asia-Pacific. It is a structure which is best described as a hub-and-spokes structure, which is a phrase that we use in this country just to describe NAFTA but which could well be used to describe the pattern of America's interactions with the western rim of the Pacific. Furthermore, it is a structure which by and large is resistant to attempts to build multilateral, universal, non-discriminatory rules of political and economic interaction between Washington and the region.

As a political scientist I want to say that this *tabula rasa* view is wrong and that there is a structure which was more or less put in place at the beginning of the Cold War through a series of bilateral alliances between the United States and the major capitals of East and South-East Asia, including of course Canberra and Wellington. This is best described as a hub-and-spokes structure, where each alliance that America had with Tokyo, Seoul, Manila, et cetera, was somewhat different from the others. They were quite individually tailored to needs and circumstances, and this sort of alliance structure is essentially antithetical to principles of non-discrimination of the kind that APEC wants to push.

With those kinds of views, I suppose it would come as no surprise that I am somewhat sceptical about the sort of claims that have been made about APEC miracles in recent times in this country and elsewhere. I have tended to regard APEC as having taken on more than it can chew with the 1990-93 shift towards trade liberalisation, and indeed in recent years—in the last two APEC summits anyway—it does seem to me to be a notable slowing down of the APEC process. I could elaborate more on that if you like.

The bulk of the paper is essentially an attempt to justify that kind of conclusion I put to you about the political structure of interactions in the Asia-Pacific region. I pay considerable attention to two particular moments in APEC's history, and of Australia's involvement in APEC. Australia has been extraordinarily important, I think, both in getting APEC up and in redefining it in 1992-93. I draw two examples that I think highlight this political interpretation of mine: from the 1988-89 period, the problems that Canberra perceived about the problems of Japanese clientelism in the Asia-Pacific region; and the problems that Canberra perceived in 1992 when George Bush was running around in electoral mode talking about NAFTA making inroads into South-East Asia.

I use these as examples of moments in time where there were appreciations in Canberra about aspects of this political structure that I am pointing towards, and I try and develop those kinds of insights a little bit and bring them into sharper focus towards the end of the paper. But I will not bore you with the details of that argument; you can read those at your leisure.

Towards the end of the paper I try and draw some implications of the argument that I am making, namely that there is this political structure to interactions in the Asia-Pacific which is best described as a hub-and-spokes model. I try and say, 'What does that mean for the Pacific rim?' So there is this rather interesting—I thought it was quite nice actually—subheading towards the end, 'Hubs, spokes and rims'. We will have the full wheel before you know it.

I try and say, ‘Why do political scientists even bother with this? What do we know about structures based on political clientelism?’, which is the way I would describe a hub-and-spokes structure. It seems to me that there are three things that political scientists know about these kinds of political systems. The first one is that the structures of hub-and-spokes systems are particularly stable over time. They tend to be somewhat resistant to change that comes from the base up, so to speak. They tend to have a good deal of medium-term stability to them, and to endure rather well in the face of social change, so they hang around quite a bit.

The second thing I think that we know about hub-and-spokes kinds of systems is that they are essentially feudal arrangements. Each spoke is somewhat differently tensioned than the other spokes in a hub-and-spokes system, and to that extent it is difficult to make a multilateral, non-discriminatory, universal rules based system out of one of these hub-and-spokes based systems. I would take from that, I think, rather gloomy conclusions about APEC’s prospects of success, even under very favourable conditions in the Asia-Pacific region.

The final thing I think we know about clientelistic hub-and-spokes type systems like this is that they do collapse, often quite inexplicably, since they often in other circumstances seem to be very stable. They collapse often inexplicably: why now and not earlier or later? They collapse usually spectacularly, and almost always with revolutionary consequences, so when they fall they fall in big ways. We know this casually from our observations of the collapse of domestic political regimes that are based on clientelism, such as Marcos and all of those analogies, et cetera. I take, in that respect, quite gloomy conclusions about the prospects for such a process of APEC collapse in the Asia-Pacific region, and wonder whether in some respects the terms of reference of this inquiry, although they were obviously cast some considerable time ago, do not themselves need to be recalculated somewhat in the light of recent events.

I will not attempt to say any more than that for the time being, but I would be very happy to answer questions on a wide variety of things to do either with what is in the submission or indeed on other matters.

**CHAIR**—Good. The first question I would like to ask is on the very nature of APEC itself, which goes to one of the issues you raised about hubs and spokes, the feudal arrangement. As I understand it, from its inception there was always a voluntary consensus nature about APEC which is quite different from other arrangements which the US would like to see in its place. The US has always been one for more precise, more binding, more demanding arrangements in a relationship.

**Mr Leaver**—Yes.

**CHAIR**—But that was not allowed to happen because of fairly much the nature of the economies that were involved in Asia. It was the cultural nature more so than the political nature. What is your response to that, because that seems to be the strength of APEC which may well see it through and allow it to survive and achieve what it needs to achieve in its wide-ranging agenda?

**Mr Leaver**—It is true that APEC has always had that voluntary tone to it. But, like most clubs, once it starts up—as Professor Walsh was saying earlier on—there is a tendency to want to join whatever club there is around, to be in it. The costs of opting out of APEC seem to be extraordinarily high and why would you want to do it? It is unnecessary. What I think will happen in APEC is not so much a complete collapse but just a sort of slowdown and loss of momentum. To some extent I think that has already happened in recent APEC summits. This loss of momentum takes the form, in APEC summits, of this movement towards individual action plans and sectorally specific trade agreements.

If you look at the long history of postwar trade agreements and trade liberalisation, that kind of sectorally specific route is one that the general agreement on tariffs and trade went down in the first instance. Around the end of the first decade or so, that came to be regarded as a very slow way to go and they got into across-the-board straight-line tariff cuts as a much quicker way to get into the thing. So I actually interpret the move towards sectoral agreements as a kind of a move back to a slower pace.

Things may quicken up in 10 years time as we get near the 2010 deadline. I certainly expect things will become much more interesting in APEC at about that time. But in some respects I would interpret what has happened in APEC in the last two years, without anybody saying so, to essentially be a mode of putting APEC on a backburner.

**CHAIR**—That is an interesting view because I think we have had evidence before this committee which would say that the outcome at the leaders meeting last year in Vancouver, where there is now a focus on this voluntary sectoral liberalisation—and I think there is a meeting coming up within the next fortnight in Kuala Lumpur on this as well which will give added impetus to it—is that, whilst one may have placed in effect the view that there is a slowing down, this is not so. Also, other evidence that has been before the committee says that, whilst the view on the top might appear to be as active, it is really down in the bowels of the operation now that things are really starting to take place, in the working groups and so on.

**Mr Leaver**—At the senior official level.

**CHAIR**—So if that is the case then there is a future for APEC and for its agenda.

**Mr Leaver**—Yes.

**CHAIR**—I agree with you, though, that the momentum has to be sustained, and if the momentum is not sustained then we will surely see the relevance of APEC diminished.

**Mr Leaver**—Yes.

**CHAIR**—Which raises the point of the role of the Australian government. It seems to me from the evidence I have heard that there is an important role for the Australian government to play, or there was initially in the formation, and there continues to be an important role for the Australian government to play in the success of APEC.

**Mr Leaver**—Yes.

**CHAIR**—Of course, we are not in NAFTA, we do not belong in the European Union, we are really not part of ASEAN or AFTA, we are not part of ASEM, we are not part of the East Asian Economic Caucus. Really, Australia has a lot to lose and a lot to gain out of APEC, and therefore its role is important. What is your comment on that?

**Mr Leaver**—It is true that we do not fit very easily in these other organisations which you mention. We do not fit very easily anywhere, and that has always been a problem in Australia when it looks around to all of these other clubs. APEC is not like this, but usually trade liberalisation is done amongst similar kinds of economies. Developed European economies get together and they find it quite easy to liberalise because they have all got the same adjustment problems and they can move at the slower speed and they all suffer the same effects, to some extent, of their own policies. So Australia has always had this problem.

Even back in the 1950s and 1960s there was that kind of iconoclastic early Heinz Arndt view about Australia as some kind of a middle-rung country, neither developed nor developing, in the middle, not quite Third World but looks like a Third World country in terms of export profiles. This has been a constant dilemma for Australian governments. It means that we do not fit in anybody else's organisation, and perhaps we do not even fit into our own, or the one that we helped so much to create.

APEC at least has the advantage of bringing together extraordinarily different types of economies, and having no kind of standard template. The Australian, the American, the East Asian, the Japanese and the South-East Asian economies are an incredibly diverse bunch, and to some extent it is an appropriate vehicle. I would draw a line, however, at saying that it is an appropriate vehicle for trade liberalisation. It seems to me, given those different resource endowments, that movements, particularly fast movements towards trade liberalisation, are going to have very unequal backwash effects on these economies, and the costs of trade liberalisation are going to be very sectorally and nationally uneven amongst those members.

There are of course potentially great gains if you can get it. You have this dilemma in that there are huge attractions. If we could get Japan to liberalise in agriculture that would be a huge attraction to us, but of course the adjustment costs in Japan would in some respects be huge also. So you have got this problem that the benefits are great, but so, too, are the costs, politically especially.

**CHAIR**—Yes, but the evidence that we have had before us, I think it was earlier today, where it was said that—

**Mr Leaver**—Professor Anderson, probably, or Findlay, who has done a lot of work on Japanese agriculture.

**CHAIR**—Yes, it may well have been. It was said that earlier on in the piece you couldn't go into a set of discussions and talk about tariff reductions with the Chinese, and then because of the APEC processes now you can go in and talk about tariff reductions. I mean, you are not necessarily going to achieve them, but the whole process of APEC itself is an opening-up process.

**Mr Leaver**—Yes.

**CHAIR**—And this is where the value is seen. Now, the other point that has been put to us is that the APEC process itself will be important as a leverage organisation with the WTO when we go into the next round of trade liberalisation.

**Mr Leaver**—Yes.

**CHAIR**—The other point that has been put to us, and I think it is worth while repeating, is that whilst trade liberalisation is an important element and that is where most of the attention has been focused in terms of APEC, it is in the other areas that the real benefits and gains are to be made into the future, and that is in trade facilitation, and also in economic and technical cooperation.

**Mr Leaver**—Yes.

**CHAIR**—Now, how do you respond to that, because some have quite incorrectly focused too narrowly on that narrow trade aspect of APEC, whereas it has a broader agenda? And from what I have picked up from witnesses, that agenda is working quite well.

**Mr Leaver**—Yes, I would not take exception with, if you like, the first definition of APEC. It seemed to me to be implicit in what Bob Hawke was doing and saying back in the late 1980s, which was essentially about trade facilitation and having a kind of OECD of the Pacific; a talking shop, confidence-building mechanism, liberalisation—perhaps; but in the fullness of time; letting the market lead a bit, not forcing the pace, a kind of slowly, slowly view. I would have taken that to be the view at the time at least of most of the economists in this country—the Drysdales and the Garnauts—who were implicitly quite critical, I think, in 1992-93 of the alleged upgrading of APEC towards some kind of trade liberalisation, forcing the pace, raising the tenor, getting heads of state involved and all of that.

Yes, I have no problem particularly with the trade facilitation definition of what APEC might well be about, but it was Australian governments I think which were extraordinarily important in changing gears there in 1992-93, selling that to Clinton as a way of engaging the Americans in APEC. I remember in 1991 being part of a conference held in Canberra that was dealing with Pacific economic relations questions, and there were inevitably some papers being given there on APEC, and we had two or three extremely distinguished American economists and international economists come along to this conference. They had not heard of APEC. They did not know what it was.

This is in 1991. These are some of the big names in the profession and they said, ‘APEC?’ We said, ‘It’s been around for a couple of years and we’ve got a few distinguished papers on it here.’ They said they could only find one or two references in the *Economist* and they had an army of research assistants looking for stuff on it. So in some sense the Americans picked up on APEC very quickly, I think, once it became about trade liberalisation, and to some extent they have set a fairly cracking pace that I think threatens to in a sense swamp and compromise the rather more, I think, sensible, slowly, slowly trade facilitation cooperation-building roles of APEC.

**CHAIR**—Just a quick comment from you before I pass over to my colleague Senator Lightfoot on maybe the political make-up of APEC. We have seen that the number of economies there have grown from 12 now to 21 with the recent inclusion of Russia, and of course that changes the politics of what is going on quite dramatically.

**Mr Leaver**—Yes.

**CHAIR**—It was clearly described as being a political decision to bring them in.

**Mr Leaver**—Yes.

**CHAIR**—Then if one looks at the decision in Vancouver that says we will place a moratorium on future membership for the next 10 years, which excludes a large economy like India—and of course we have a number of small Pacific nations that are excluded but yet would like to get into the club—it seems to me that it would be desirable to continue to expand the membership of APEC as being something that would be in our best interests from the trade facilitation and liberalisation agenda, as well as the economic and technical cooperation area.

**Mr Leaver**—Yes.

**CHAIR**—What is your view on the admission of Russia, the impact of that politically, and the seeming exclusion of India for some time to come?

**Mr Leaver**—My view would be that in a sense you should have stuck by the Vancouver decision about membership, but, having breached your own rules, you might as well make a fool of yourself completely and you ought to keep on breaching it. So, yes, I took it to be the sentiment you are expressing there, that having done it, let us keep doing more of it and expand the club.

**CHAIR**—Do you see that as giving a long-term viability to APEC which would otherwise not have been there, which may have—in your words—seen APEC roll over and die, or just fade into the distant past? Is this one of the things that will keep the momentum going?

**Mr Leaver**—I suspect the momentum is going to be set overwhelmingly by the pattern of interactions amongst the really big economies inside APEC, and that if you are talking about bringing in marginal players—and to some extent the Russians are a marginal player in the Pacific economy—or indeed smaller economies, then in a sense you are not going to fundamentally alter that fact. But you might as well bring them in anyway. As I said, having made the first breach, you might as well let the minnows walk through it as well. That would be my feeling. But the pace or the character of the organisation will be set by the interactions amongst the major players.

**Senator LIGHTFOOT**—Mr Leaver, I quickly speed read your paper, and it is very interesting. You leave little room for ambiguity on matters.

**Mr Leaver**—I try to be provocative.

**Senator LIGHTFOOT**—I have never met you before but I can probably safely say that you are well-known for that. There is little ambiguity, leaving the reader with little to doubt about what message you want to get across. That is a breath of fresh air, and I welcome that kind of contribution. Now, if I could just pick up on one aspect at a time of what you say, you say on your front page:

It is extremely doubtful whether the most affected countries will be able to trade their way back into solvency.

Given those fundamental factors that maybe you have drawn on to make a statement of that nature, where you get, say, an 80 per cent devaluation of a currency like the rupiah, it is impossible to trade back from that low base. That country is technically insolvent.

**Mr Leaver**—There were about a dozen corporations that were still solvent, I think, in Indonesia at the depth of the currently crash.

**Senator LIGHTFOOT**—Yes. In fact it was precipitated by the voluntary liquidation of a Hong Kong finance company, largely British-owned, that had lent \$US200 million to a ‘taxi company’—which might have sort of related back to the President. But where you have those sorts of basic facts before you, you have got to understand—and obviously you do—that in order to be able to repair the situation you have got to treat the fundamentals with truth. The truth is that the country is, for all intents and purposes, technically insolvent. Then we can start to help it. I think that is the breath of fresh air.

I had some experience—and I will not be long because I want to ask you some questions rather than give you a dialogue of what I believe—but I had the experience in the early 1990s of trying to assist, by way of mutual assistance as you might have called it, the emerging Comecon countries of Hungary, Bulgaria, Romania, East Germany in particular, Poland—which had been out of Comecon by this time—and Czechoslovakia—assisting them to emerge from being debt-ridden, economically in crisis. I had negotiated from the Australian Wool Corporation a \$50 million deferred payment for East Germany, particularly with a company called Leipzig Wool Kameri which was the biggest foreign earner in East Germany at the time. In other words, it was buying wool from Australia; it was the biggest wool value-added company in the eastern bloc countries and it was seen by Troyhund—which was set up by the German government, you would be aware—to protect the East German economy and to give it some legal assistance and act as a broker between those wishing to invest and protecting their investment in East Germany.

I had negotiated that \$50 million for a sale of wool with a 12-month deferred payment, which was going to give Leipzig Wool Kameri the chance of taking our wool, which was at relatively modest prices in those days, and value-adding it, selling it in the 12 months and then paying back, all with a guarantee of Troyhund, which was set up by the German government. Unfortunately the Australian Wool Corporation got a new overall chairman—Dr Richardson, I think, was his name and I am being honest and open here about it. He stopped all this sort of thing. What happened was, of course, that instead of Leipzig Wool Kameri continuing, it went into virtual liquidation; it never bought out wool again of any consequence. It started taking in artificial fibres and it converted over to artificial fibres and anything other than Australian wool.

The question I want to ask you is: using that as a microcosm, isn't it better that we use the facilities and the raw materials we have to help foster a regrowth in these companies, particularly our near neighbour, Indonesia, to make sure they remain at least economically solvent in the foreseeable future, rather than let them struggle out of it by themselves?

**Mr Leaver**—In the spirit of your observations, I think it is fair to say that in the most major falls of South-East Asian currencies that have occurred in recent times, had there been someone willing to step in, as the currencies started to fall, to make significant purchases—and these would not have had to have been huge purchases, because most of those currencies fell on very thin volumes of trading in their currencies—the major kinds of catastrophes that started to unfold a couple of weeks ago in Indonesia would have been averted. With most of these declines we talk about the imagery of global capital leaving these economies but most of the capital that left was in fact fairly small beer. The volumes going out were really quite small; it is just that no-one was buying. So in the spirit of crisis prevention that you are talking about there was indeed a role earlier on—which has now unfortunately passed, I think—where somebody that was willing to step in and buy at that juncture could have, in fact, saved us a lot of agony and pain, not to mention Indonesia's debts.

**Senator LIGHTFOOT**—So it is not just a debt holiday; it is a debt write-off, isn't it?

**Mr Leaver**—That is right, yes.

**Senator LIGHTFOOT**—Wouldn't you agree?

**Mr Leaver**—Sorry?

**Senator LIGHTFOOT**—It has gone past the debt holiday stage and it is a debt write-off, to some degree?

**Mr Leaver**—I think there will have to be elements of that, as there were in the Latin debt crises. Ultimately the big Western banks a decade ago had to be willing to make bad debt provisions and to write off certain amounts.

**Senator LIGHTFOOT**—How can APEC play its role there?

**Mr Leaver**—Yes, that is going to be—most of this falls, of course, within the court of the International Monetary Fund and the World Bank rather than APEC.

**Senator LIGHTFOOT**—So the IMF's first foray has not worked?

**Mr Leaver**—No, it has not.

**Senator LIGHTFOOT**—It may have exacerbated the problem.

**Mr Leaver**—It may well have, and may continue to in so far as—I take this extremely interesting argument that the last thing you need in places like Thailand is further kind of stringency.

**Senator LIGHTFOOT**—Yes, who needs enemies with friends like that.

**Mr Leaver**—These are very serious arguments, yes. That is right, yes. Nonetheless, there clearly is—you do reach a point where in a sense you do have a role for a lender of last resort. One would hope that they would act a bit quicker than the last resort, the second to last resort. Yes, perhaps APEC should have a role there, but APEC has tended to confine its brief to trade and facilitation and liberalisation and not much to do with currency matters, although they have started to discuss investment and guidelines for that as well, and to some extent Professor Walsh's issue of development assistance. You might well say this is a good opportunity for APEC to take on an even broader kind of agenda.

**Senator LIGHTFOOT**—Should APEC be playing a more proactive role, rather than reacting to, say, IMF moves or World Bank-IMF moves?

**Mr Leaver**—I would think it would be extremely useful if there was some kind of ongoing dialogue around the region about this, because I think if there is not some kind of common understandings amongst the regions, what you will at the end of the day see—and it will probably overly concern Australian governments—is that in fact the only thing left standing at the end of the day will be the East Asian Economic Caucus. That will not be because anybody wants it; it will only be because the East Asians will be the only ones willing to trade with each other. If you ask who would be the big player in that I would venture to say it will probably be China rather than Japan. That would seem to me to be something that would probably send all kinds of alarm bells ringing in this country, for not altogether the right reasons, but I can imagine that there would be a climate of near hysteria about it.

**Senator LIGHTFOOT**—Are you talking about a clientele relationship with China and the tiger economies?

**Mr Leaver**—It could become that, if China performs useful functions.

**Senator LIGHTFOOT**—Would that trip the alarm bells?

**Mr Leaver**—I think it would here, yes.

**Senator LIGHTFOOT**—Yes. I think we have to realise the desperate situation that Indonesia is in—and I concentrate on Indonesia, not because I am picking on it, but because it is our nearest neighbour, it is 200 million people, and it is obviously in our interests to have stability—and not just stability induced by force but stability induced by economics. Isn't it time that we realised that if there is going to be massive unemployment in, say, Jakarta—and one figure I have heard is four million in the next few months—

**Mr Leaver**—Sure.

**Senator LIGHTFOOT**—Would you agree with those sorts of figures?

**Mr Leaver**—I have no basis to—

**Senator LIGHTFOOT**—Not even generic. If that is the case—

**Mr Leaver**—I have seen those figures.

**Senator LIGHTFOOT**—They worry me as a politician, and they should worry all politicians. It used to be said that if you were out of work—I mean that figuratively—it was a recession, but if I was out of work it was a depression. I do not think this is true if we look at Indonesia. If there are four million people unemployed, potentially so in Jakarta, that has to be an economically depressed area.

**Mr Leaver**—I think so.

**Senator LIGHTFOOT**—You agree with that.

**Mr Leaver**—Yes.

**Senator LIGHTFOOT**—My question again is, in a slightly different mode: what can APEC do? Does APEC realise the severity of what we concur with, or do you think that it is still trying to obfuscate the issue on the basis that if we do not talk about it too loudly it will go away?

**Mr Leaver**—I think that has certainly been the general climate in this country. There has been, I think, a public underselling of the severity of this crisis, and to some extent no-one can really be blamed for that because it has taken twists and turns that you cannot always expect, and we are not very good at predicting these kinds of things. I was on the web site for the International Monetary Fund a couple of days ago putting together a topic guide and I discovered an interesting working paper published in December last year by the IMF called 'Are currency crises predictable?'

**Senator LIGHTFOOT**—I love it. You just confirmed my worst suspicions.

**Mr Leaver**—Yes, but having said that I think there has been a tendency for official statements about the severity of the crisis coming from the government and from various officials in this country to be quickly swept over by events. We have remained behind the pace of things to some extent, and I think that is true around the APEC region. I recall President Clinton at one point talking about a small glitch, and then next week a global crisis that the Europeans needed to be brought in on. I am a bit loath to say that there is any kind of strategy at work here. It is just that to some extent these are people being caught off guard by what is going on. But there is a kind of tendency to see just the trees and not the whole forest about these crises; to actually lose sight of the bigger picture.

As a political scientist the idea that we can simply just get these economies back to normal by liberalising them—I mean, I am all in favour of doing away with some of the corrupt and non-transparent practices that have been going on from Japan to Jakarta, but I do not think that that is all of the solution, or that indeed it is even the major part of the solution ultimately at the moment.

**Senator LIGHTFOOT**—Should Japan play a bigger part in the resurrection of those economies, particularly in—

**Mr Leaver**—I think it has missed the opportunity.

**Senator LIGHTFOOT**—Is it better late than never?

**Mr Leaver**—It depends. It is going to have to pay attention to its \$900 billion in bad debts through its financial system that has been—

**Senator LIGHTFOOT**—Yes, \$900 billion.

**Mr Leaver**—Yes. When it is not paying attention to that, I think it is going to want to pay attention to the financial system in South Korea. I think the Japanese are going to suffer a kind of a contraction of their horizon in the medium—

**Senator LIGHTFOOT**—It is already suffering an economic detraction with its zero growth this year.

**Mr Leaver**—Yes, sure.

**Senator LIGHTFOOT**—But with a ZPG that is not as critical as it is in, say, economies like Australia. Would you agree?

**Mr Leaver**—That is true, yes, although even so the kinds of escalations that have been made in recent weeks about the severity of the problem in South Korea, where it has gone from official estimates of perhaps minus 1 to minus 2, to minus 10 plus.

**Senator LIGHTFOOT**—But not with a currency conversion blow-out like Indonesia.

**Mr Leaver**—That is right.

**Senator LIGHTFOOT**—It is only—

**Mr Leaver**—Only 50 per cent, yes.

**Senator LIGHTFOOT**—I must finish, regrettably, because the chairman has a plane to catch. I have got the latest Economics Monitor, although it is not a magazine or a monthly that I read. I read dozens of others, but not this one. They say in October—and they obviously do not have the benefit of hindsight that I have, given that 80 per cent devaluation of the rupiah did not happen until December—that the ASEAN countries take 15 per cent of Australia's exports, while Japan takes 20 per cent and the rest of North Asia an additional 20 per cent. They go on to say that if Australian exports to ASEAN fell five per cent—that was a conservative figure in hindsight—due to slower ASEAN output growth, this would reduce Australian output by only 0.15 per cent, which, given the alacrity with which some people, some of our industrialists, will act, could be negligible. That could be covered. It said, 'It therefore needs a large drop in ASEAN imports combined with indirect effects from the impact of other countries before there is likely to be a major impact on Australia.' That

could be effectively doubled. What is your opinion now if we had a 3½ per cent growth prior to the meltdown and we had a 0.3 per cent, even a 0.5 per cent, retreat, in our projected economic growth?

**Mr Leaver**—I am not into the job of making precise predictions but it does seem to me that the Australian economy is in a very interesting situation, and our dollar is, generally speaking, up—and up quite dramatically—against South-East Asian economies; somewhat stable against the yen; and of course down in value against the American one. In a sense we are badly placed there, because it means that in so far as we are down against the American economy, we are probably going to be paying a lot more for a stream of imports from the United States that has been growing quite rapidly, as you are no doubt aware, through the last two or three years—our bilateral deficit with the US has, out of nowhere, gone to kind of four to one order of magnitude.

I think we stand to cop a whammy that way, and no-one has really talked about that. Everyone has been looking at the export side of the equation and what the South-East Asian and now, more recently, North-East Asian contraction might do to that. I would want to sort of broaden the agenda a bit there. If you are going to make those kinds of calculations about effects, you are going to, I think to some extent, look not just at contracting markets for our exports, but also at the expanding bill for imports from what we bring in from the United States, and then start talking, as I think Keating to some extent did in the mid-1980s, about those kinds of republican crises that were on the agenda then.

Yes, I am struck by the way in which, in not altogether dissimilar circumstances, no-one wants to use the phrase ‘banana republicanism’ now. In many ways the problems are much worse, I think, than those that Keating was pointing to.

**Senator LIGHTFOOT**—Let’s not use that phrase.

**Mr Leaver**—No, constitution or monarchy.

**Senator LIGHTFOOT**—But could we use another phrase—are we heading for another recession that we had to have?

**Mr Leaver**—I would not want to go that far, but I would certainly think that the estimates that have been made in recent times, even the revised estimates of how much the Australian economy might slow next year, are on the conservative side.

**Senator LIGHTFOOT**—China will not counter that slowing down of our economy?

**Mr Leaver**—Yes, a little bit, but I would not expect it to be too pronounced. I would think China is going to be quite attentive to the export needs of more distressed countries than Australia.

**Senator LIGHTFOOT**—Yes. There are dozens of questions that I could ask you, Mr Leaver, and you are very interesting to talk to, but I do not want to incur the wrath of the chairman.

**Mr Leaver**—No, indeed.

**CHAIR**—I have got one more question that I need to ask, and that is that the committee was told yesterday that Australia should not grovel in trying to join ASEM, but should re-establish our credentials and put ourselves in a position where it becomes natural for Australia to join ASEM. Do you agree?

**Mr Leaver**—I am certainly not in favour of grovelling as a mode of behaviour.

**CHAIR**—It was a rhetorical question. I understand that, but to what extent do we have to re-establish credentials? ASEM is one of those groupings outside that we potentially—or we have been excluded from so far. It is not much use grovelling as was put to us yesterday.

**Mr Leaver**—Yes. I, on the whole, have not been particularly convinced of the requirement that we need to be in it. As I said, I think I indicated earlier on to some extent that this view that if there is a club going you had better join and go along is not a view I tend to hold to. Otherwise, while I do not particularly have any strong sort of principled reasons to want to stand outside it, I cannot think of any particularly strong and principled reasons I would want to be in it, either. So a bit indifferent, I think, would be my feeling.

**CHAIR**—We have done pretty well so far being out of it, too.

**Mr Leaver**—We have, yes.

**CHAIR**—All right, on that note we will finish this afternoon. I thank you for attending.

I just want to place on record, on behalf of, I am sure, my colleague and myself, our thanks for the cooperation that we have had extended to us this week by the secretariat and also by Hansard, because it has been a fairly long week for both of us.

**Senator LIGHTFOOT**—Yes, it has indeed.

**CHAIR**—We will resume this hearing at a date to be determined. Thank you.

**Committee adjourned at 3.59 p.m.**