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 MARCH 1998

CANBERRA

BY AUTHORITY OF THE SENATE
CANBERRA 1997

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SENATE

Friday, 6 March 1998

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

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

Participating members: Senators Abetz, Bolkus, Brown, Brownhill, Calvert, Colston, Faulkner, Ferris (for the committee's inquiry into Australia in relation to APEC), Harradine, Margetts and Schacht

Senators attending the hearing: Senators Cook, Eggleston, Hogg and Lightfoot

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

DRYSDALE, Professor Peter David, Professor of Economics and Executive Director, Australia-Japan Research Centre, Economics Division, Research School of Pacific and Asian Studies, Australian National University, GPO Box 4, Canberra, Australian Capital Territory 0200 750

GARNAUT, Professor Ross Gregory, Professor of Economics, Australian National University, Canberra, Australian Capital Territory 2600 750

HOOKE, Mr Mitchell Harry, Executive Director and CEO, Australian Food Council, 2-4 Brisbane Ave, Barton, Australian Capital Territory 718

KERSTEN, Dr Rikki, Director, Research Institute for Asia and the Pacific, University of Sydney, 49 York Street, Sydney, New South Wales 2001 704

McKINLEY, Dr Michael, Senior Lecturer, Global Politics, Department of Political Science, Australian National University, Canberra, Australian Capital Territory 0200 687

ROBERTSON, Professor David Henry, John Gough Professor and Director, Centre for Practice of International Trade, Melbourne Business School, 200 Leicester Street, Carlton, Victoria 3053 738

Committee met at 8.36 a.m.

McKINLEY, Dr Michael, Senior Lecturer, Global Politics, Department of Political Science, Australian National University, Canberra, Australian Capital Territory 0200

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

The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a written submission from you dated 17 December 1997. Are there any alterations or additions you would like to make to your submission at this stage?

Dr McKinley—None at all, thank you.

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

Dr McKinley—The title of my submission, ‘Globalisation from above: the unspoken pathologies of the global political economy: notes of relevance to the dialogue on APEC’, was chosen quite deliberately. It was arrived at by reflecting upon the pathologies in question and then attempting to account for their exclusion. The conclusion I came to was:

> For those who can, and must, speak, deliberately chosen silence is determined by either, or both, of two reasons: they have either nothing to say, or they have nothing to gain by giving voice.

That is, to that which they are silent.

In the dialogue on security broadly defined, and on a state’s relations with other states, both of which are integral to an understanding of APEC, this is an untenable position. In the first instance it is a reproach to policy as the meaningful and purposeful response to the world of important political and economic actors, actions and forces. Silence here indicates impotence, embarrassment or disingenuousness.

Secondly, and more importantly, such a character is also inimical to the ends that policy ostensibly serves and thus silence on matters such as I raise in my submission is dangerous. This is because silence consigns to apparent irrelevance that which it touches even if, as is the case with so much of the content of what is described as globalisation, it bears upon national security in exceedingly serious ways. At stake here is the character and credibility of the official and mainstream dialogues on Australian foreign and security policy if they are juxtaposed with the briefly described world of known, relevant and significant facts which they proclaim as the basis of their deliberations and decisions.

My submission is an attempt, albeit a truncated one, to facilitate an inquiry which redresses this in a relatively straightforward two-step approach. The first is no more than a recall of the underlying assumptions in Australian political economic thought at the official and mainstream levels.

As regards the explicit issue of national security which numerous government reports and reviews down the years rightly link with national and regional prosperity, the perceived wisdom is that though there are issues and regions which potentially or actually are associated with war, Australia is held to be without significant, or for that matter identifiable, threat in the foreseeable future.

Moreover, Australia's benign strategic situation is seen as complemented by the new economic opportunities provided by a world of increasing globalisation and interdependence. Further, in the post-Cold War era, the prosperity of all countries in general, and Australia in particular, is to be achieved by the superimposition of a market based approach to virtually every aspect of life on a global scale.

Conversely, this requires that the state surrender many of the roles it previously undertook as a result of the experience in earlier periods when the ideology of the market reigned relatively unfettered. Such assumptions are nevertheless the currency of Australia's economic redemption in the wake of its overall decline in the period since the early 1970s. Indeed, they constitute some of the more outstanding examples of the bipartisan consensus which exists in Australian party politics on the validity of economic rationalism, the national variant of what is sometimes called neoliberal economics, neoclassical economics.

At the same time, they represent the extraordinary mainstream consensus which exists at the level of both university economics discourse and the policy making elite concerning the desirability of what is called a new and minimalist laissez-faire state set in norms that come from a dominating neoclassical rationalism that is anti-statist, anti-union, and either asocial or antisocial in its basic orientation to policy. Understood even more acutely, it is a policy view which eschews any coherent view of society per se and as a whole. Indeed, within it, society is held to be some sort of stubbornly resisting sludge, a generic externality—I am here quoting from Michael Pusey—and it is sometimes seen even as an idealised opponent of the economy.

The market in these terms is total, it is social subordination and derivation being denied at the same time as it asserts arbitrarily and imperiously what counts in national life. The second step is a presentation of an understanding of the global political economy in which the above assumptions and the policies drawn from them operate. More specifically, the global political economy is understood in terms of its pathogens, those existing global conditions, forces and megatrends, and their inescapable consequences which, in what are sometimes called a wired world, significantly affect Australia and its government's declared aspirations, even if Australia has little or no interest in or effect upon them.

Frequently, this account is via examples provided by the United States experience but this is inescapable. Not only was it singled out by one former foreign minister as the exemplar model of the western model of economic development, it is also the case that the theoretical foundations of economic globalisation lie primarily in American and secondly in British economic thought.

Implicitly, what is being asked is this: how seriously can we take prescriptions for the way Australia is to proceed in the world when they fail to duly acknowledge those conditions, which are in effect consequences of neoclassical theory in practice? Approaching these conditions, the eminent political economist Robert Cox admits to Antonio Gramsci's pessimism of the intellect when confronted with all of the extant permanence and tangibility of them.

The evidence he and a great many others marshalled is grounded in their observations of a certain type of new capitalism which, embodying the distinct system of values, patterns of consumption, social structure and form of state that it does, has also produced its own distinctive socially destructive consequences which are indicative of a mounting crisis in the global political economy.

Surveying the vectors and the wreckage, he has moved to describe the present by recalling Karl Polyani's analysis of an early moment in capitalism's past. We have now returned to Polyani's first phase in which the state is evacuated from substantive economic activity and, by and large, it is reduced to the role of adjusting national economies to the dynamics of an unregulated global economy. Now, unregulated in this context needs to be qualified so as to include the surrendering of national prerogatives regulating the mobility of capital and goods and services but not of labour, which is to remain highly controlled if not localised.

This is the qualitative change which needs to be kept in mind in my submission. It is not that international or global trade is a new phenomenon, it is not. But there has been a fundamental transformation wrought in the global political economy. Specifically that transformation is from a capitalist political world, dominated by state actors, which contained competing economies to a capitalist economic world in which states are subordinate actors and which contains competing political entities. In what is probably an injuriously brief account, my submission details the pathologies which arise from this process.

From these perspectives, the most salient global conditions in which Australian foreign and security policy is embedded are those of increasingly unaccountable government, declining quality of life and endemic structural violence. Moreover, the pathogens in the situation are verging towards, if they have not already reached, a predicament consistent with the state of existence in which the conditions of life are those inflicted upon a vanquished people by an occupying force and in the name of some compelling externality, such as the market.

This analogy is not exaggerated. It was, after all, introduced by Senator Evans and Bruce Grant into the Australian dialogue of economic globalisation, with a suggested appropriation from the German war theorist, Clausewitz. In Senator Evans's book, it appears as the statement that 'economics is the continuation of wars by other means.' In view of the celebrity, congratulatory and prescriptive tenor of the bipartisan economic rationalist consensus, this is a remarkable statement for the reason that it is an educationally appropriate concept which refuses to take itself seriously when an albeit abbreviated but nevertheless dangerous schedule of global pathologies suggest that it should do exactly that.

Thus it is remarkable, in view of the collective inability or refusal of Australian pronouncements and documents to acknowledge the sources of the global dynamic to which Australia will have to accommodate in this period. There is only silence, accordingly, as regards any sense of context and any sense of some causes being more appropriate than some effects. For example, if globalisation is increasing, might it not be instructed to reflect upon the metaprojects of which it is a consequence? And what of globalisation? Does it have a grammar or logic which requires further inquiry? And is globalisation synonymous with interdependence?

In other words, in the absence of such questions, the suggestion is that the future is but a linear extrapolation of whatever version of the past is agreed upon. Thus, the notion that the future should not be regarded with such passivity and that the new coefficients are applied to old solutions only at the risk of ruin, is totally absent. Worse, what is missing is any sense that something is missing. This might be forgivable if the global political past and present were beyond understanding or if the metaprojects themselves were dismissible for some reason or another. But this is not even remotely the case.

As theory and practice are integral to each other so it is that global pathologies, and their exclusion by silence in Australian foreign policy, are mutually dependent. We are left then with a most unsatisfactory situation in policy terms, one in which there is simply no instinct to ask, in any socially appropriate form, ‘Security?’—from what, for whom, to protect what, and by what means. In the ensuing unchallenged silence, an extraordinary inversion is effected: abdicated is the required, security relevant inquiry, which not only must attend any serious discussion of APEC but also is essential for a country which claims a sphere of primary strategic interests comprising nearly one-quarter of the earth’s surface.

Senator COOK—I found that a very interesting presentation, Doctor McKinley. I am just trying to work out how we translate what you have said up against our terms of reference in this inquiry. It seems to me you are talking about globalisation, given your description of the bipartisan consensus on economic rationalism as an inevitable force. What are you saying should be the direction in which we should go? What things do you think we should be doing that offer a solution to these circumstances?

Dr McKinley—I actually took it as a matter that APEC and Australian security, broadly defined, are integral to each other. What my submission suggests is that the very processes that we are embracing as a way out of Australia’s economic malaise are those processes which in time will create security crises in our region; that the superimposition into the region of doctrinaire, laissez-faire economics both within and between states will create social division—is already creating social division—not only in the region but here at home, and that it will ultimately create a sense in which Australians feel themselves to be the victims of globalisation. So there will rise, I think, a ground swell of antipathy towards the region for its economic practices, because the region is practising different economic practices from those we currently practise in Australia.

So, if you like, the embrace of APEC in the way it is being embraced and the silences which attend that ultimately are contradictory to our best security interests. We therefore have to incorporate into the debate, the dialogue, a much more thorough understanding of what is going on in the region in terms of disparities of wealth, political oppression, and so on.

Senator COOK—How do we do that, though? APEC, as I understand the concept, is a gathering of states on a consensual basis making decisions about trade by agreement between each other, setting themselves goals. At this stage, it is not true to say it has no wider agenda: it is beginning to creep gently into areas that might be thought to embrace a wider agenda. Those are not areas which at the moment involve consideration of social conditions in particular countries, nor are they areas which involve, in any real sense, regional security or defence considerations, either. It is fairly narrowly based, somewhat new, relatively immature still—of course, the participants are not immature, but the organisational structures do not have the tradition behind them or have not evolved in a strong way yet.

Within that, accepting your point, what should the Australian government or the parliament be doing that it is not doing to promote a better understanding of what is happening in the region?

Dr McKinley—I might have a slightly different understanding of APEC from you. I see it as part of a much broader discourse that deals with the WTO and globalisation, and in some cases—

Senator COOK—Certainly that is true. Sorry to interrupt. As a subregional organisation, it does not have an official standing within the WTO. Some of the members like China—and Russia, now—are not members of the WTO. But what it is directing its attention to is removing barriers to trade between the member states within it. That is something pretty consistent with the goals of the WTO in getting global free trade.

Dr McKinley—Yes. What I would like to see the parliament do, if it is capable of doing it, is acquire a more sensitive respect for language, because I think the term 'global free trade' is an obfuscation. It is not about global free trade; it is about the free movement of goods, services and capital and the localisation of labour under conditions of radically unequal development which I see as being injurious to many countries.

You might be aware that in both official United States documents and, more recently, in the writings of people like Jacques Atali, Africa and Latin America have been written off for the millennium. That is the subtitle of Atali's book. There is, I would say, a consensus which is pessimistic about Africa and Latin America. So I see the whole notion of global free trade as being highly injurious to these peoples. I am not just talking about them suffering declining standards of living; I am talking about high levels of death and morbidity.

What we have to understand is that APEC cannot be separated from a discussion on security, even though it has been institutionally defined in a relatively restricted way. It cannot be separated from discussions on security. One of the difficulties an Australian government faces is that it deals in an elite discourse with people in the region who are, in a very broad sense, part of the problem rather than part of any solution. By not introducing into the discourse the very serious considerations that will affect the whole of the region, we are committing a silence which ultimately could be our undoing.

Senator COOK—You may not accept this premise, but the underpinning view is this: if you open up the region to freer trade, you will speed the economic development of the participating states, and with economic growth will come a number of things that perhaps are not yet clearly defined within the region. There will emerge a clear working class within the region. In a country such as Indonesia, the working class as such would be 5 or 6 per cent at best of the total population of the country. With that, you will get the development of trade unions bargaining on their behalf for better living standards. You will get a greater push by an emergent middle class for democratic rights and democratic expressions. These things will evolve with growth and with the development of the economies. They will be concentrated, of course, in such countries; but you will also see the emergence of, for example, global trade unions.

It could be argued by some that we have just had a few examples of that with respect to the Maritime Workers Union, where global trade unions operated in Dubai to crush an attempt to train mercenaries for the Australian waterfront and also earlier worked to prevent what I would call a scab shipping operation going on in Townsville. This is the strength of unions on a global basis. They emerge to counteract what is a globalised economy on a capital basis. This, I guess, is premised on the idea that, with growth, these things come.

Dr McKinley—I disagree with that, although I can see why you would say that, in the past, economic growth has led to the sort of developments you have talked about. But there is one thing that is left out, and I mention it briefly in my submission. It is that globalisation is being accompanied by what some people call the third Industrial Revolution, such that economic growth does not create employment. In fact, as I understand it, the best of the critical economists that I have been reading have got tables galore showing that you can have massive amounts of production and economic growth with relatively declining employment.

Senator COOK—Because of increased technology?

Dr McKinley—Yes. For that reason, I do not see the region developing according to that more benign model: where there is a population surge and a decline in available jobs and an actual global shortage of capital—and I believe there is a global shortage of capital now—you will get countries competing, as has already happened, for investment for jobs. They will be following the Malaysian model where, in the electronics industry, unionisation is prohibited by law on the grounds that it would be a disincentive to investment.

You will get the sort of obscene development that takes place with the Nike plant in Indonesia: it would take a Nike worker 44,492 years to earn the one-year endorsement fee of Michael Jordan. In fact, about three years ago in Indonesia, the entire Nike labour force, which manufactures something like 60 to 70 per cent of the Nike global output, was paid less for its labour than Michael Jordan's signing-on fee for one year. We can talk about those sorts of examples being proliferated all around the world. It is one of the great ironies and obscenities that, since NAFTA was signed and in operation, the wages of Mexican workers in Tijuana have declined.

Senator LIGHTFOOT—Against what base?

Dr McKinley—Against the average earnings in the previous three years before NAFTA.

Senator LIGHTFOOT—Against their own earnings?

Dr McKinley—Yes, against their own earnings.

Senator LIGHTFOOT—And the purchasing power has declined as a result?

Dr McKinley—Yes.

Senator COOK—Perhaps I will conclude, because I am sure my colleagues on this committee will ask you other questions. Taking what you have said, though—and you may well have other examples, and this question is really to elicit them, if you do—the examples you have used of Malaysia and Nike are principally in manufacturing.

Dr McKinley—Yes.

Senator COOK—The manufacturing sector globally is in decline, in terms of an employer. We have in Milan the first lights-out plant. There are no lights on, because no workers work on the production line: robots do the work. And, in major manufacturing at least, we no longer have the hunt for sites in the world where labour is cheap but, rather, the hunt for sites in the world where labour is skilled. It is not cheap labour that is required anymore: it is skilled labour—and not very much of it—that can actually run highly technological plants.

That seems to me to be increasingly what will happen in the manufacturing sector. But, if you look at the Australian economy, about 83 per cent of all people employed here work in the services sector. Some may say that it is a poor trade to go from a position on a production line to one as a waiter or a tourist guide, but that is the area of greater employment generation. The traditional idea of working-class employment being in manufacturing is wrong, and the emergent idea of working-class employment being in the services is more likely to be the case—tourism, transport and communication are all services. I talked about the example of the Maritime Workers Union, because they are typical services sector changes, and they are typical in a globalised economy because of argument about costs of transport, essentially. Do you think that your thesis holds up with those changes as well? Do you see examples in those areas?

Dr McKinley—Yes, I do. If you go back to services, they are producing employment that tends to be—

Senator COOK—Labour intensive employment.

Dr McKinley—Labour intensive, part-time, low paid, temporary employment, predominantly taken up by women, who get paid less. Those are the statistics which I have been reading for many years. At the same time, you have in Australia a reasonably highly educated population, and there is a really interesting question here: if you start creating a highly educated population who cannot possibly work to their own satisfaction, what are going to be the social results there? Ultimately, you will drive the standard of living down if you force people, structurally, into the service sectors.

Senator COOK—I would like to continue this discussion but I am sure my colleagues have other questions.

Senator EGGLESTON—I can ask a question that follows from that, in a way. I am very interested in this because it is really a new international division of labour sort of issue, where manufacturing goes to the cheapest labour market and where the Asian economies to the north have recently gone through so much trouble. In such countries as Malaysia, in particular, and in Indonesia and the Philippines, a lot of the manufacturing industry has gone because labour was cheap, but now the people there are becoming better educated and the price of labour has gone up to some extent.

What is your view of the long-term structural integrity of those new economies? In a way, you have partly answered this by what you have just said, but how does it relate to the long-term future of Australia? We have a well-educated labour force who expect to maintain a high standard of living but, increasingly, Australia will become uncompetitive in terms of manufacturing industry. We are already seeing a lot of manufacturing industry going elsewhere. I have read that, even with countries like Malaysia, some of the Europeans who had located industry in South East Asia are taking it back to Europe, for the sort of reasons that Peter has just outlined. What are your views about the future strengths of the economies of such countries as Malaysia, Indonesia, the Philippines, Thailand and Australia in this situation?

Dr McKinley—There are different experiences going to take place in each country, but what we do know, in terms of the consistent trends, is that you are getting a rapid polarisation of wealth inside these countries. These are countries also whose political complexion leaves a great deal to be desired. If you accelerate or intensify the political dissatisfaction by rapid disparities in wealth, what I think you get internally are serious levels of social strife. There are numerous studies which have been done by colleagues of mine at the ANU which suggest that, in Indonesia, this is well under way.

Of course, capital is free to shift as it wants, but it is not just low wage rates that it is seeking: it is seeking an accommodation with occupational health and safety and with environmental protection. It does not mean to say that these states do not have to pass good legislation; it means that they do not have to enforce it. I have been in rural areas of Mexico, where US trucks have come south of the border to dump drums of xylene into local creeks.

Senator LIGHTFOOT—What is xylene?

Dr McKinley—It is an etching agent—one of the most powerful etching agents there is.

Senator LIGHTFOOT—A metal-etching agent?

Dr McKinley—Yes; it is used in the computer industry, I believe, Senator.

Senator LIGHTFOOT—An oxidant?

Dr McKinley—I do not know whether it is an oxidant, but certainly it will kill you, and very quickly. It is one of the most powerful poisons known to man. I believe it comes out of the computer industries that operate just south of the Mexican border, in what are called the Maquiladoras. Mexico is quite renowned for the way in which its industrial waste—both from the United States and from locally-generated operations in the Maquiladoras—is having an effect on health.

There is an extraordinary increase in the Maquiladora area of babies being born without brains. We are talking exponential growth since these operations set up. That is what many multinational corporations are seeking, if you like: a political environment in which occupational health and safety and environmental protection are not practised, even if the legislation there is first-rate.

Going back to your question, Senator, I see only the rapid polarisation continuing until such time as it becomes untenable. We have indications of what happens when this reaches crisis point. Luckily, one of these groups is extraordinarily eloquent: the Zapatistas operating in Chiapas and Oxahaca in Mexico.

Senator EGGLESTON—But, in terms of this inquiry and its emphasis on APEC and free trade, I suppose that one of the consequences you might see is the progressive deindustrialisation of Australia. I would be interested to know whether you view that as a realistic possibility and what you might therefore consider to be the wisest course for us as a nation to follow, in terms of seeking to prevent that sort of outcome. Here we are, talking about free trade and accepting it as being almost written in granite or being the Holy Grail, but is that necessarily the wisest long-term outcome for Australia? Or should we reconsider that whole position in terms of protecting our industrial base, the level of income of our work force, and our social and cultural standards?

Dr McKinley—I agree with you, it is written in granite almost, and yet it is strange because there is not a single example in economic history of free trade leading to the rise of an economic power. Not even Britain followed that course, except in its latter stage when it almost proclaimed as a death bed conversion that it would get rid of tariffs, but Britain rose behind tariff walls, as did every major economic power in history.

I see the further deindustrialisation of Australia. I see something probably more important—and I am talking here not just about in manufacturing but across the board, even in some of the professional areas. I can see it happening in the university, which I can explain if you want me to. As Australian workers see their jobs being forfeited to other countries whose conditions of employment do not acknowledge the same levels of freedom of association through unions, environmental protection or occupational health and safety, they will say that there is not a level playing field, and they would be right to say so.

They will quickly translate that appreciation into a form of dislike for those peoples who have taken their jobs. In other words, the idea which Australia has, which I believe is a sound idea, of becoming much more sensitive to the region in which we are geographically located will be thwarted by another area of our policy which has to do with the allowing of our jobs to go overseas.

It could happen in the professions. Already in Australia some universities are lecturing to other universities in Australia. Already in Australia some universities are taking lectures from other countries. What you could get eventually is an Oxford, Cambridge or Harvard degree being offered by a company in Wollongong. The company would just arrange for you to go into a lecture theatre to hear the best of Oxford, Cambridge or Harvard, get local tutors to tutor you and you would come away with some sort of global degree, which I believe would lead to homogenisation and be a disaster for Australia in the long run.

Senator EGGLESTON—That is very interesting.

Senator COOK—That may not be a bad thing.

Dr McKinley—Homogenisation is always a bad thing.

Senator COOK—No, your conclusions are bad things but an Oxford, Cambridge or Harvard degree is a liberal education. If the world were homogenised around principles of liberal education, would that be a bad thing?

Dr McKinley—I do not accept that a Harvard degree gives you a liberal education. Remember, napalm was invented at Harvard, along with a lot of other things. It is an important area, Senator, because if you study Americans, you study America.

Senator COOK—I accept that part. Perhaps others might like to put some questions.

Senator LIGHTFOOT—I appreciate Senator Cook deferring to us because I know that he does have an inordinate knowledge of the APEC area. I appreciate his generosity because he must have a lot of questions going around in his head to ask. I have some less academic questions than Senator Cook's questions. Dr McKinley, you spoke of a market based approach to every aspect of life. Does that extend to health and education?

Dr McKinley—I believe it has, yes.

Senator LIGHTFOOT—How has that manifested itself in Australia?

Dr McKinley—Through the current education system. I am most familiar with the university.

Senator LIGHTFOOT—Which you spoke about a few moments ago?

Dr McKinley—Yes. The university is being run very much according to a market based approach at the moment.

Senator LIGHTFOOT—But isn't that just an indication of the further globalisation of the village?

Dr McKinley—I do not quite follow your question.

Senator LIGHTFOOT—It is clear that in some areas the globe is becoming a village—a city—if you like.

Dr McKinley—Yes.

Senator LIGHTFOOT—Isn't that homogenisation, as you put it, of education just a further manifestation of the spread into the global village concept?

Dr McKinley—Not quite. You are right that it is the result of a globalising process. We always have to ask the question: what is being globalised? What is being globalised is a market based approach which says, for example, that if classics cannot make a profit, classics do not get taught. I believe that is a tragedy but it is about to happen at my own university. We have universities in Australia which no longer teach physics. We have universities which have dropped their mathematics departments because they do not turn a profit in neoclassical terms.

Senator LIGHTFOOT—Do you mean classical subjects or classics as in ancient or—

Dr McKinley—Classics at the ANU will probably not exist at the end of this year. But other universities have faced similar problems with other subject areas. There is virtually not a department in any modern university which is not touched by the need to provide courses which make profits.

Senator LIGHTFOOT—Is this a further demonstration of the market based approach?

Dr McKinley—Yes, it is.

Senator LIGHTFOOT—And the atrophying of some of the classical subjects and classics as a result?

Dr McKinley—Yes.

Senator LIGHTFOOT—Where is the centre of this? Where did it radiate from, if anywhere?

Dr McKinley—Do you mean the idea which comes to determine this?

Senator LIGHTFOOT—Yes.

Dr McKinley—You are asking me for an infinite regress. The immediate origins of it lie in the turn to a more dogmatic form of neoclassical economics, which took place in an observable sense, I suppose, with the coming to power of President Reagan and Prime Minister Thatcher. They were present—

Senator LIGHTFOOT—Reaganomics and Thatcherism?

Dr McKinley—Reaganomics, yes. And Rogernomics in New Zealand and so on. What we call economic rationalism here. I see it happening much earlier: the Tokyo round of GATT, where the United States attempted quite successfully to change the terms of the GATT which had existed since just after the Second World War, was one of the first formal or institutional signs of that. I see that as a direct consequence of what was taking place in the United States economy after about 1964, where the US economy started turning sour in various ways. It has been gradual, almost like an avalanche. The mechanics of an avalanche start very small. But now it has been adopted in Australia; was adopted with the coming to power of the Hawke Labor government; that was where you got a sort of observable watershed. The ideas were picked up there and put into practice.

Senator LIGHTFOOT—And that emanated from the United States?

Dr McKinley—Primarily. There are many forms of neoclassical economics, but the type that is being globalised is the type that the Americans most favour and are most apprised of.

Senator LIGHTFOOT—You mentioned or concurred with Thatcherism and—

Dr McKinley—I do not concur with it.

Senator LIGHTFOOT—No, you concurred when I said that Reaganomics was tied to it, Thatcherism was tied to it, and Rogernomics was tied to economics rationalism in Australia.

Dr McKinley—Yes.

Senator LIGHTFOOT—Is it an accident that they are Anglo-Saxon countries? They are widely viewed as Anglo-Saxon countries.

Dr McKinley—That is an interesting question. I do not know the answer. I would have to think about it because it is a very serious question. It is not an accident—if I might give you an unconsidered answer at the moment. The Europeans have taken social justice ideas as well as practice much more seriously throughout their history, for their own historical reasons, than have the Anglo-Saxon countries. I think it was easier to get that type of policy change in Britain, certainly, than it would have been in, say, France.

In the United States there is a different complexion, as I am sure many of you will know. It has to do with the intense frustration with the failure of social programs in the lower classes, if you like. There are many reasons for that, but what was expressed as policy was that frustration with the inner cities—with blacks, with chicanos and so on—with the fact that a great deal of money, as government had seen it or as the parties had seen it, had been devoted to getting some sort of improvement and it had seemed not to work.

Senator LIGHTFOOT—Why didn't it work?

Dr McKinley—That would take a long time to explain.

Senator LIGHTFOOT—Was it something to do with the evolutionary process of the actors in the tragedy?

Dr McKinley—No, I do not believe that for one minute. I do not subscribe to the Murray thesis for one minute. I believe that there were structural problems in the United States—

Senator LIGHTFOOT—Social and structural problems?

Dr McKinley—Social and structural problems in the United States which prevented the blacks enjoying the great wealth of the United States to the extent that they should have.

Senator LIGHTFOOT—All economic roads seem to be going right back to the United States, probably to New York or Washington, or California, but, generally, in an administrative sense, to the United States. Is that right?

Dr McKinley—Yes. I give a lecture to the Joint Services Staff College where I try to explain one of the great megatrends in the world and I am pleased to hear you subscribe to the same view. I believe it works this way, and this is an extraordinarily injurious formula: the future of the world is in the United States; the future of the United States is in California; the future of California is in Los Angeles; and the future of Los Angeles is in south-central Los Angeles, so God help us all.

Senator LIGHTFOOT—It is very interesting to render it down to a relatively small area in terms of square kilometres.

Dr McKinley—If we keep thinking the way we keep thinking, the consequences will follow. I do not believe in inevitabilities unless you keep thinking the way you keep thinking. I believe the way we are thinking at the moment leads us to south-central Los Angeles.

Senator LIGHTFOOT—That is the hub—some people would say, incorrectly, the epicentre. But haven't all roads led to London at one stage, Rome at another, Athens at another, Egypt at another—upper and lower Nile? They led to Persia before that and so on. Isn't it inevitable that some area in this globalisation—in the global village—is going to lead somewhere as small as Los Angeles?

Dr McKinley—Provided you keep thinking the same way, you will get what seems to be inevitable. But, as sentient human beings, we can change the way we think because the consequences are too appalling to contemplate.

Senator LIGHTFOOT—In terms of APEC, then, would it be correct to say that APEC, whilst not a wholly owned subsidiary of the United States, is one in which the United States, one way or another, holds the majority of shares?

Dr McKinley—Oh, I think so. I do not think the world would have turned to this thing called global free trade had it not been for the United States. The United States was relatively uninterested in global free trade until such time as the profits in the United States in the big corporations started to decline. They sort of recolonised the United States in the 1950s in a strange way, which was possible demographically and socially where, as more and more people started leaving home to live in apartments and so on—more and more young people did this—you had a rise in the consumer demand there. When that was exhausted, followed by the extraordinary domestic effects of the Vietnam War, followed also by the natural cycles of the drop in profit of the US corporations, then the US turned to bigger markets, but it was only as a last resort. It was only at a time when they started to understand that they could no longer run the world in the way they had been running it, without a rejuvenation of a Bretton Woods type agreement.

Senator EGGLESTON—But was that not in part due to them opening their own market and finding that they were losing out domestically, and they could not get into international markets like Japan, which was always protectionist, and Europe as it became more protectionist?

Dr McKinley—There is some of that in it, but when they first started turning towards rethinking the global political economy, they did so on a basis of purely domestic reflection on the fact that profits in US corporations were declining. That was in the mid-1960s, so the European Union, or the EEC as it then was, at that stage was not really too much of a threat. Nor was Japan too much of a threat.

Senator EGGLESTON—That factor came more in the seventies and eighties.

Dr McKinley—Yes. But even now the EU and Japan combined do not add up to the American economy.

Senator EGGLESTON—But America has huge trade deficits. Japan—

Dr McKinley—Yes, that is true.

Senator EGGLESTON—NAFTA has been driven, at least in part, by that, hasn’t it?

Dr McKinley—Yes.

Senator LIGHTFOOT—I would like to go back to APEC. Your answer with respect to the interest in APEC by America was a positive one, so that is yes. With the evolvement of GATT into WTO, it seems to me that GATT is becoming less important and WTO is becoming more important, and yet WTO was spawned by GATT. Would you concur with that?

Dr McKinley—Yes.

Senator LIGHTFOOT—I do not want to use the term ‘conspiracy’—there must be another descriptive word I could use. But would you say that the impetus for that evolvement of the World Trade Organisation came out of the self-interest of the United States?

Dr McKinley—I do not think there is any doubt about that—I do not think there is any doubt about it whatsoever.

Senator LIGHTFOOT—So has Australia moved too quickly in terms of embracing WTO directives?

Dr McKinley—I am not sure Australia had a lot of choice at one level. I think the WTO met with an uncritical response in Australia.

Senator LIGHTFOOT—And it should have been critical.

Dr McKinley—Yes. Here is an organisation which has been set up, to use the formal term, 'with the legal personality equivalent to the United Nations'. It still has dispute settlement procedures which are entirely undemocratic.

Senator LIGHTFOOT—And predominantly, primarily, for the benefit of the United States?

Dr McKinley—So far that seems to be the way in which it is heading, yes.

Senator COOK—I do not know that I can allow that to pass, with great respect, Doctor. First of all, we have got a duty of care to the Australian people to try to find a way through the problems, some of which you have referred to, for this nation. So we are in the solutions business. We have to try to find positive things to do in the interests of Australia in this debate.

Australia is a medium size economic power. Without a rules based WTO—and unfortunately it is not a universal organisation—in which there is a way in which a medium size nation can deal with a major trading power like Europe, Japan or the United States, we are left to the law of the jungle—might is then right. Use of global trading strength overwhelms a country like Australia. It seems to me the case for the WTO is almost unassailable for a medium size country like us. How else would we get any sort of notional justice without it? That is the question.

Dr McKinley—I have no problem with a clearing house for disputes, but I have every problem with a clearing house for disputes whereby the dispute settlement procedure is done in confidence in small groups of committees run by specialists.

Senator COOK—The dispute settlements are over particular issues of challenge.

Dr McKinley—Yes, they are. But let us look at some of the cases that have been initiated already. There is an attempt to say that the nuclear non-proliferation treaty is a restraint on trade; an attempt to say that the Californian clean drinking water act—I might have that act wrong—is a restraint on trade; an attempt to say that the anti-dolphin provisions of some of the fisheries acts in the United States are a restraint on trade. I do not find these to be very positive indications of the WTO's abilities.

Senator COOK—They are. In some respects they may be acceptable restraints on trade. I would hold that trade in nuclear materials is an acceptable restraint on trade but, in the case of a dolphin act in the United States, that is a celebrated act. Without there being some sort of international referee in this, you would have had a situation in which a US act, passed for environmental reasons to protect dolphins, was being used not for environmental protection but as a way of suborning Mexican fishermen to the will of the United States.

The explanation given for it was that it was in the interests of environmental protection, that it is intruding into the sovereignty of a neighbouring country and then imposing US will on them. I do not think that is an acceptable course of international behaviour. We may disagree on that. That is not to say that the protection of dolphins is not necessary. But when US fishermen are killing as many dolphins as Mexican fishermen and only Mexican fishermen get knocked off, leaving US fishermen with access to the fishery, that is exploitation in my view and something needs to be done about it. There are many forums and the WTO is only one of them. In the context of free trade, it is a restriction on free trade.

I have another question for you and I will favour you with a couple of quotes. Last November at the leaders meeting in Vancouver, the declaration said:

> Achieving sustainable development remains at the heart of APEC’s mandate. Equity, poverty alleviation and quality of life are central considerations and must be addressed as an integral part of sustainable development. We have made a commitment to advance sustainable development across the entire scope of our work plan.

That surely does recognise some of the points that you are rightly concerned about; inequity, poverty and the alleviation of those things. Here are the APEC leaders declaring that as something that has got to be addressed within their primary goals, right across their work plan.

The second reference is one by our own Department of Industry, Science and Tourism which, with respect to APEC, said:

> Especially relevant for us is significant trading blocs. Europe, America and Asia begin to dominate world economic and trading activity. We would not want to be left outside of the ring of major players.

Irrespective of where you come from, I think, dealing with the reality, the world is dividing into trading blocs. If Australia were outside of it, our chances of maintaining the living standards of this nation, or advancing them, would be less, it would seem to me, than being inside them. Do you have any comment on either of those two quotes?

Dr McKinley—I have a problem with the first statement because it seems to be what is generally called a motherhood statement. Even if the leaders are absolutely convinced of the integrity of their position, what they have to do to realise it is work inside a global political economy dominated by transnational corporations and by a capitalistic logic, if you like. That usually dominates declarations of high intent. With the second statement that, effectively, we have got to find ourselves a bloc to be attached to, I would have thought that is contrary to all of the declarations about global free trade.

Senator COOK—That is true, but we are talking about regional free trade in this context.

Dr McKinley—You have raised a very important point which is that it sounds like we are in the business of backing short-term winners. We have done that before. I believe it will injure our position in the long run because we will back a trading system, regionally, if you like, which creates huge civil strife; and it is in the process of doing so. Then we will ask questions in another committee room about whether we should be sending troops overseas for various contingencies. I believe the two are integrally connected.

CHAIR—We have run over time. Senator Lightfoot has a couple of questions that he would like to put on notice. If you could get back to us, that would be very helpful.

Dr McKinley—Certainly.

Senator LIGHTFOOT—Thank you, Mr Chairman, and Dr McKinley. There are many questions I would like to ask you but I would not want to exploit you to that degree. I am very interested in your comment that Britain rose behind tariff walls because my view is that the removal of tariffs in Australia happened too quickly for the Australian economy and the Australian social supports to cope with. At what stage, over what period, do you think it would have been a more acceptable—I am not just talking about socially here but economically—time frame for tariffs to be removed and in what areas?

You also happened to mention, inter alia, Bretton Woods. Did President Nixon, largely, dismantle the Bretton Woods system too quickly? Do you think we need to establish some standard by which currencies can be stabilised again? Witness to that, of course, are the devastated economies of South Korea, Thailand, Malaysia and Indonesia, in particular.

Is not political and social stability more desirable than rapid and equal economic growth? I mean, you can have social stability coupled to economic growth but where you have to choose between the two, is not political stability preferred to equitable economic growth? I am talking about the disparity here—you mentioned Nike, Indonesia and Australia. Indonesia is one of the most important countries in APEC and one of the most important neighbours that Australia has.

CHAIR—It would be appreciated if you could take those on notice and give the answers back to the secretariat. Unfortunately, I got robbed of any opportunity to ask questions but I think the others covered some of the areas that I wished to. Thank you for appearing before us today.

[9.39 a.m.]

KERSTEN, Dr Rikki, Director, Research Institute for Asia and the Pacific, University of Sydney, 49 York Street, Sydney, New South Wales 2001

CHAIR—Welcome, Dr Kersten. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a written submission from you dated 18 August 1997. Are there any alterations or additions you would like to make to your submission at this stage?

Dr Kersten—Not at this time.

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

Dr Kersten—Thank you. I hope that I can make a contribution to this hearing through my position as someone who works at the grassroots of APEC. I am an academic, but I have not studied APEC. I have not published learned articles on APEC, but what I have done for the last 2½ years is play a role in the business management network within the human resources development working group of APEC. It is from that perspective largely that this submission has been written.

There is no question that APEC is vital to Australia. Referring to Senator Cook’s earlier remarks, Australia must be a part of movements that are occurring around the globe. APEC is, I would think, one of the most important, alongside the WTO. Australia not only needs to be a part of APEC, but it needs to maximise its influence in that forum. In other words, I am saying that, to be an effective global player, Australia needs to be an effective regional player.

APEC is a fascinating organisation. Unlike any other one of its kind, it brings together what you might call East and West. It has a fascinating organisational culture as a result. It is certainly not boring, and it is extremely frustrating to get anything done in that forum.

I think that Australia does extremely well, however, despite those problems, because Australia shows itself to be not only familiar with the Western approach to negotiation—compromise and consensus—but we are an extremely Asia literate country. We are capable of functioning very effectively as a middle power that is Asia literate in the APEC forum. I think the opportunities for Australia are quite extraordinary in APEC, and that is despite everything that has happened in the Asian region since RIAP’s submission was written.

Australia can showcase its expertise in a lot of areas in APEC: it can be technology transfer, our expertise in services, intellectual property and IT. Our capacity to train, to make a contribution to human resources development is constantly highlighted and called upon in the APEC forum. APEC opens doors for Australia that policy makers ought to walk through and activate to the greatest extent possible. For all those reasons, Australia has to date been able to have a disproportionate influence in APEC as a middle power that is Asia literate. I am sorry to be repetitive, but I think they are very important points.

However, there are a number of issues that really do need to be addressed. Again, this is from a practitioner's perspective. I believe that APEC suffers, to an extraordinary extent, from what I would call 'systemic disconnection'; that there are a number of levels within APEC. There is an awful lot of activity and, of course, there is a lot of money spent, as well, running this giant machine known as APEC. You know, of course, about the leaders summits, but then there are the officials meetings, the ministers meetings, the working group meetings, the network meetings. Most of those are held at least twice a year. We have at least two representatives from every country attending. That is no small expenditure for any economy, including Australia. We ought to really make it work well, and it is the belief of our institute that this is certainly not happening.

The success of APEC really depends on an effective mechanism for public and private sector collaboration. That is APEC's greatest opportunity, and it is our belief that this is simply not happening. In Australia, business looks upon APEC as a thing of government, not something that really relates to them and the way they do business, let alone as a way to maximise their opportunities in the region.

In terms of the policy formation process and the assessment of the effectiveness of policy, again, institutions like ours are involved in feeding information based on comparative research across the region into the policy formation process. Then we sort of lose contact with policy formation and then six months, 12 months, down the track, from on high there is another policy direction and the research agenda is skewed midstream. We begin with one set of objectives, halfway through we are hit with another. When we come up with our conclusions, goodness knows what happens to them, but certainly we do not have any feeling that what we do connects with the policy formation process. It is an awful waste of effort, not to mention money, I think.

Also, within the different levels of APEC, there are the working groups, the ministers and the leaders. The leaders have a high profile, as is proper. Working within one working group, I am not even sure often what is happening within the other working groups. The human resources development working group obviously relates to, I would say, every other working group. But I think there is a lack of systemic connection vertically and horizontally within the APEC structures, and again I feel that effort is wasted. We feel that we are operating in a kind of vacuum. There must be duplication, and I am frightened to think about the extent of that duplication within APEC.

Also, I think there is an inadequate base for supporting and politically driving what we might call cross-cutting issues—that is, sustainable development, small medium enterprises and even human resources development. None of those areas has its own bureaucratic home within APEC that others areas such as telecommunications or the marine environment have. There are no human resources development ministers for example.

These issues are discussed across the working groups of APEC. They are certainly constantly valued by leaders in their statements, but there is not a chain, if you like, of systemic connection that is connecting policy formation, research and information flow. Again, it seems to be incoherent, if you like, in a structural sense.

Our submission refers to the rival subregional groupings, and I think that in summary I can say that we believe APEC to be Australia's highest priority and that other regional groupings such as EAEC are based on principles which undermine APEC and which threaten Australia's legitimate role as a player in a regional forum. For that reason we ought to be watchful and, I think, quite strong in the way we represent APEC against what I am calling rival subregional groupings but are actually subgroups of APEC in a certain sense.

It is very important that we get these structural issues right now, because APEC is at a crucial stage. On the one hand there is an opportunity created by the crisis in Asia for APEC to demonstrate its relevance and its influence, if you like, not only regionally but globally. Also, APEC is at the stage where there has been a lot of talking; it is now time for implementation. How on earth are we going to do that using the structures and the systems that are in place now? That is where I would like to leave that.

Senator EGGLESTON—You say in the submission that you have drawn the conclusion:

> . . . APEC's structures actively militate against the achievement of APEC's stated objectives.

Clearly, the content of what you have just said supports that. How is it that there is no mechanism within the system for a better organisational structure to develop? Is it because of the political interests of the leaders and the countries involved, or is just that there is no central point where the whole organisation can be reviewed from, in a bureaucratic sense?

Dr Kersten—Your last point is a very good place to start. There is an APEC secretariat in Singapore, a very modest one. Again, the priority seems to be to represent the broader interests of the players in APEC rather than create a structure that is going to have a watching brief, let alone a management brief, over the whole of APEC.

CHAIR—Can I interrupt there. Isn't part of the nature of the beast itself, that it is a voluntary organisation as opposed to an organisation that can impose anything mandatory upon the member economies?

Dr Kersten—That is right.

CHAIR—Isn't that really the dilemma?

Dr Kersten—It is not really a dilemma because you are talking about two extremes. On the one hand you have the dispute resolution mechanisms of WTO, and before that GATT. On the other hand you have the consensus based process, the process that says 'We will not move forward unless we have discussed it with everyone and agreed', which is the model for APEC to date.

However, I believe there can be a middle road where there is the creation, possibly within the APEC secretariat, of a body that does have a watching brief, that monitors at the very least APEC activity, that looks for duplication, and that tries to find ways systemically to reduce duplication. There is a middle way that can be reached without completely overwhelming or contradicting the consensus based nature of APEC.

APEC works largely because even if you are the United States of America, you cannot thump the table and shout and expect the rest of the representatives to agree with you. Actually, it is the representatives who can discuss effectively with all of the people concerned. You can, through weight of numbers and consensus, actually go against the views of the great powers of the world.

Senator EGGLESTON—What you have outlined is a very inefficient sort of structure. I suppose it is a little bit disappointing that there is no simple way of making the organisation, in terms of what it does at a bureaucratic level, more effective, but there we are. Do you think there is a movement towards overcoming the sorts of problems you have outlined?

Dr Kersten—There is definitely recognition within APEC that something needs to be done. The Human Resources Development Working Group, in particular, is huge. It has the greatest activity in terms of research projects occurring at any one time. Its meetings are massive. But, if I could refer back to your earlier comment, Australia can do something to help this process along and that, I would suggest, would be coming up with an alternative institutional model which has a much more effective integration of private sector inputs.

At the moment, the inputs from the private sector come from the grassroots where we are, at the working group level, and through the business advisory committee, which is at the very top. However, I think in Australia it is three people—three very capable people, one of whom is our chairman—but three people at the top is not quite enough to connect the views of the business world of Australia to the policy priorities, even at that senior level. I think we can come up with a model that is more efficient, that retains the consensus based spirit of the organisational culture of APEC, and do a much better job of public-private sector integration at the same time.

Senator COOK—I agree emphatically with what you are saying and encourage you to say it as long and as loudly as you can. However, APEC stands for Asia Pacific Economic Cooperation and I think even in 1993, when Gareth Evans suggested that the 'cooperation' part of the title should be removed and APEC should be called the Asia Pacific Economic Community, there was a continuous uproar, mainly from South-East Asian countries, that we were putting strictures on them that interfered with their sovereignty and changing the consensual nature of the organisation. If I understand what you are saying, you are talking about doing that without fiddling with the title, but doing that within the organisation.

I agree with you that Australia can play a role in promoting a model, arguing the benefits, and lobbying other countries. Where do you see—particularly in South-East Asia, China, Japan, Korea, on the Asian side of the equation—the issues that we would have to deal with in order for them to feel comfortable, or more comfortable, with that type of structure? What are the objections that they are going to raise that we have to be aware of? That is my first question.

The other part to it is: should APEC now say, 'Look, no more members'? Every time you increase the number of members of APEC, you increase the number of groups that have to be appeased in terms of their stake in it and their objections about what this means to their own economies. Should we sign off, have no more members, until we have this show working at a level which, when people apply, they are joining something which is much more structured, much more able to deliver its goals?

The third part of it is: I am not as familiar with what the human resources working groups are doing as perhaps I should be—and I am interested in what you have said about masses of people, major committees, and all that sort of thing. That was not an anticipated dimension of APEC when the trade focus was so narrowly applied. It seems to me that this is an evolving area of APEC, which is welcome, in my view. It starts to address, in a structural form at least, some of the issues raised by our previous witness, although maybe not in a way which that witness would necessarily agree with, but those heads of issues.

I would not mind just a bit of a view from you on what you see as the prognosis of that development. How do you think it is likely to spread and what other social issues might get involved in it?

Dr Kersten—In terms of objections from Asia—and I am reading that as South-East Asia—probably uppermost in Australia's mind is Malaysia's prominent role in that regard. I think we ought to look at Asia more strategically and acknowledge that our relationship with Japan is probably the most pivotal part of how effective we can become in overcoming those objections in the rest of South-East Asia in particular. I have worked in Foreign Affairs and Trade—I resigned in 1990—and from 1990 onwards I have been thinking about it as a private citizen, rather than as someone on the inside, but in my experience, Japan and Australia have been mutually supportive; they have been a lobbying axis, if you like, within APEC. That is very important because, especially since Osaka, Japan has basically been bankrolling a lot of the APEC activity—or at least they have promised to do so and they have declared that they will make funds available. The reality of that is a bit problematic. Perhaps it has not happened to the extent that we thought might have been possible after Osaka.

The first thing I would say is to strategically work with our bilateral relationships within the region to enhance our status especially vis-a-vis those countries that perhaps have reservations about Australia being seen as an insider. That relates to a comment that was made in the submission about culture-ethnicity or geographical proximity being the basis of a regional grouping, which the EAEC is definitely about versus APEC which is quite different. So if we could use our bilateral relationships, particularly the one with Japan more effectively I think that is one way that we could go about that. We are doing extremely well there at the moment in the way that we have been proactive even in a small way with Thailand and Indonesia and even to an extent Malaysia. The way Australia has stepped in openly and made positive contributions to what is happening in those economies is the foundation that we should work on—no question.

Our relationship with Korea: we have never had a better time than now to work with that bilateral relationship. It is our second largest export market. It is a shame that Qantas and Ansett have pulled out of their major routes to Korea, and the way they did it is probably not ideal. However, this is an opportunity for Australia to show it is there for the long haul, that it supports Korea, whether that is through export insurance or through other means. Korea is another potential pivotal bilateral relationship within the wider region.

Thailand is another one that I would focus on to work through that relationship towards the others that have been more problematic, particularly Malaysia.

Singapore has lobbied for Australia in the past within APEC, particularly with regards to Australia having a seat at the table at ASEM. That is becoming a talismanic issue for us. The longer we are excluded from that forum, the harder it is going to be for us to argue our legitimate place there.

With Malaysia, with Indonesia, we ought to be working with the future leadership. I know we have already started that but, in various ways at various levels, people like Armien Rais have very good relationships with organisations and individuals in Australia. We ought to build on the future through those relationships of the future while doing our best with the present. Strategic relationships, strategic management of bilateral relationships, is probably the way to go. We should not fall into apologising for who we think we are. We should not agonise over how we might be seen. We ought to be proud of what we are, and that is a very Asia literate economy that has great persuasive power in our own region. It is something I have seen and it is something I believe we can do. And we ought not keep apologising for other people’s perceptions of who we are, either as a culture or as a nation or in terms of our sovereignty.

The second question about membership: APEC is supposed to be an inclusive—or, if you like, it is supposed to be an example of open regionalism. What does that mean? We all are dealing with tariff barriers and with invisible trade barriers. We are dealing with our own vested interests, and each economy needs to protect different sectors for different reasons for different lengths of time.

The European Union, formerly the European Community, is probably the reason that the reaction was so negative to Gareth Evans’s suggestion about the name change for APEC. The EU has become a bureaucratic juggernaut. Certainly, if you are concerned about loss of sovereignty, there is a model for it. I am not an expert on the EU but I have lived in Europe, and I suppose there is anecdotal evidence of the impact that a centralised bureaucracy for an entity as large as Europe can have on your daily life.

Senator LIGHTFOOT—Are you in the Euro-sceptic category?

Dr Kersten—Yes, I am. I can elaborate on that later, if you would like. I believe APEC membership should be limited but not for the reason that we should be seen to be a closed cosy group. We ought to get our structures and our mechanisms right. We ought to keep revisiting our objectives, especially in light of what is happening in Asia, to make them relevant. Is the 2020 timetable still relevant? Should we anticipate a move on the part of Asian economies and developing economies, especially the ones who have suffered in what has happened recently, to pull back on that timetable? Should we be guided by AFTA’s timetable rather than APEC’s? Should we try to put those different timetables in alignment and be more realistic about that?

Senator LIGHTFOOT—Those are rhetorical questions?

Dr Kersten—Yes, but they are the sorts of questions that we should be thinking about when we start thinking about membership. We have just agreed that Russia, Vietnam—

Senator COOK—If you start fiddling with the timetable, you do risk letting the genie out of the bottle, do you not?

Dr Kersten—Yes.

Senator COOK—And the whole thing running down.

Dr Kersten—But Russia, Vietnam and Peru are now members. We now have 21 APEC member economies. What have we gained through admitting those economies? I am not sure I can answer that, apart from goodwill on the part of those economies.

Senator COOK—The other question is: why did we admit them?

Dr Kersten—Sustained pressure.

Senator COOK—Did we admit them for the reasons of the goals of APEC or for other reasons? I think the secondary agenda is more important in these cases.

Dr Kersten—Yes. I think probably those economies have worked their respective bilateral relationships with major players in APEC quite well over a sustained period of time and they have been successful. But there have probably been trade-offs or agreements made here and there that have benefited some economies. I am speculating there; I have no knowledge of that. I think we ought to sit back and reconsider the bigger picture and our organisation before we start maximising membership. I believe that, at the last meeting, a stay was put on increases in membership for at least the medium-term.

CHAIR—I want to take you back to a statement you made.

Dr Kersten—Yes.

CHAIR—Because, as you go on to elaborate, you might like to consider this.

Dr Kersten—I still have a third question to answer.

CHAIR—Yes, I understand that. Has the recent intervention of the IMF effectively usurped the role of APEC, as you see it?

Dr Kersten—I do not think you can compare them.

CHAIR—The IMF has imposed trade liberalisation targets on some of the economies that they have intervened in, which really should have been taken care of under the APEC agenda. That is the issue that I want you to comment on, in view of some of the answers that you have given us here.

Dr Kersten—That is a big question. Yes, the IMF's role is going to play havoc with the timetable that APEC has set for itself, the twin-track timetable. I do not think anyone can guess how long it is going to take for the IMF regimes to play through those economies and for those economies to come out the other side. They certainly will not look the same.

CHAIR—Does that devalue APEC, though?

Dr Kersten—That depends on how APEC behaves from this point on. APEC ought to be proactive here. I know that in the meetings in Canada at the end of last year the situation in Asia was discussed. I would be fascinated to know whether APEC has been proactive in its communications with the IMF, whether we are inputting into the IMF.

I think the IMF is about to come under unprecedented scrutiny for its accountability and transparency until its pre-eminent role—it is the only viable institution to step in in situations like this—is looked at and perhaps amended or changed in some way. APEC ought to be very proactive in developing positions, creating as much consensus as possible using the forum that it has—and it is so valuable to have that forum—to be active, to lobby, to come up with policy positions, to provide alternatives to what the IMF has suggested. Certainly it should be doing that.

CHAIR—Sorry to have broken in on the third part of Senator Cook's question.

Dr Kersten—Basically, Senator Cook was asking me about the social issues and where they fit into APEC. I think it is fascinating that the human resources development working group is the largest and the most active. Yet it is probably fair to say that it has a huge chip on its shoulder about its effectiveness and about how much it is noticed by leaders, so that it often does not progress beyond a feel-good statement about human resource development being important.

There is revealed within the HRD working group a huge interest in benchmarking, in best practice, in the provision of training. The most valuable thing we find in projects that we manage—I have brought you the outline of one project that I refer to in our submission; the interactive CD-Rom project—is to jointly develop training programs, whether for managers or for industry, in partnership with representatives from the economies of the Asia-Pacific and in partnership with industry. In that way you get away from this patronising, elitist model of 'Here we are, Australia. We know best. We have the skills and we are telling you what to do.'

If that is overcome in the planning stages then really the potential for maximising business opportunities in those areas is so much higher as a result. A collaborative approach to technology transfer, skills enhancement, benchmarking and best practice is something that I think Australia certainly can benefit from, if it takes it more seriously and stops thinking about HRD and social issues as soft and peripheral to trade and investment liberalisation and facilitation.

Human rights is another issue that some economies want to bring up at certain times. It is always whisked off the table faster than you can blink. I am not sure that APEC is the appropriate forum for discussing human rights issues. I think APEC can be a powerful force for promoting the social issues and the social dimensions that underpin trade. Trade is not just about technical barriers, trade is about people as well. I think Australia has particular strengths in those areas.

Senator LIGHTFOOT—I am very interested in what you have to say, Dr Kersten, and thank you for your contribution so far. Closer to home, what part can Australia play in influencing APEC, with respect to the recovery of Indonesia? I do not want you to think that my question is one of concentrating on Indonesia but, obviously, with 200 million people on our doorstep, it is a tragedy unfolding before us. This committee has had some evidence from witnesses that there will be three to four million people unemployed in Indonesia ‘in the next few months.’ Do you see it playing a pivotal role or any role—that is, Australia—through APEC for the recovery of Indonesia?

Dr Kersten—There are a number of levels we can take that.

Senator LIGHTFOOT—Give me some generic ones.

Dr Kersten—For Australia to initiate resolutions or put forward ideas for discussion by the other economies of APEC on how not only Indonesia—I do not think any economy should be singled out; I imagine it would make the Indonesians feel that they are the bottom of the barrel and that they are the ones being singled out—

Senator LIGHTFOOT—I do not want to put words into your mouth. I take what you say, and I see some of your foreign affairs diplomacy coming through here.

Dr Kersten—I am doing my best.

CHAIR—You are doing very well.

Senator LIGHTFOOT—Indeed—particularly handling a questioner like me. I do not expect this to get widely reported in the Indonesian language newspapers. But Indonesia is the basket case of the four and Indonesia is on our doorstep—it is not far from Western Australia. That is the one I believe we ought to concentrate on, and Indonesia’s 200 million people.

Dr Kersten—Australia has, for a number of years now, been strengthening the institutional dimensions of its bilateral relationship with Indonesia; whether you call that the security agreement, whether it is the Australia-Indonesia Foundation, whether it is military exchanges, on a number of levels I think we have very good connections in Indonesia.

You are asking me what Australia can do through APEC for Indonesia. For a start, Australia can initiate things. It can consult the Indonesians and say, ‘What do you think you need from APEC?’ and then support Indonesia in the APEC forum. It is a basic diplomatic manoeuvre.

Senator LIGHTFOOT—Is that happening, in your view?

Dr Kersten—I cannot tell you; I am too far down the food chain, if you like, to know what is going on at those levels.

Senator LIGHTFOOT—But it should be happening.

Dr Kersten—I think that definitely should be happening. I would be surprised if it were not happening. Australia should be doing the same thing within the IMF, within the World Bank, within the ADB. Australia should be lobbying for what Indonesia believes its interests to be, as long as they do not contradict what we believe our national interests to be. As you say, stability in Indonesia is paramount to Australia's national interest. APEC is one forum in which we can demonstrate our commitment to the long-term stability and sustainability of Indonesia.

Senator LIGHTFOOT—Is that the ultimate forum?

Dr Kersten—Not for that particular thing, no, I would say not.

Senator LIGHTFOOT—What is the ultimate forum?

Dr Kersten—I think we ought to be extremely active in the IMF and the World Bank and, to a lesser extent, the Asian Development Bank.

Senator LIGHTFOOT—You would put APEC as a penultimate form of assistance to Indonesia and put the IMF and World Bank ahead of that?

Dr Kersten—I think Australia can encourage APEC towards a much more active and, if you like, interventionist role vis-a-vis Indonesia and the other economies that are experiencing difficulty.

Senator LIGHTFOOT—Given the disparity in income of 200 million Indonesians and of Australia—again, in very generic terms, Australia has 10 times the economy of Indonesia, perhaps more today, and yet Indonesia has 10 times the population—how long can that disparity between incomes last without there being some resentment towards a country like Australia? And is it important?

Dr Kersten—Yes it is important, but the other thing about APEC that makes it interesting is that, as an organisation, it does not favour developed economies over developing economies. I have seen that in action. It sounds naive—

Senator LIGHTFOOT—Or simplistic even.

Dr Kersten—But, at least at the lower levels, to lobby amongst the members of APEC is essential, no matter who you represent—the US, Japan, or anyone. In terms of the disparity and its sustainability, I agree with you, it is a matter of great concern. It is something that we should put at the forefront of our agenda in APEC, not just trade and investment liberalisation and facilitation, which is the stated primary objective of APEC, but especially addressing not only the economic but also the social fallout of this disparity in incomes. What can we do? We can maximise, in this case, Indonesia's chances of wealth distribution.

Senator LIGHTFOOT—From the top down, or radiating out from the middle class?

Dr Kersten—Middle class is a relative term. It is disposable income that counts, so within each economy you have got a totally different situation. It is one thing to say that India has a huge middle class, but the disposable income of that middle class really does not make it as important a factor as perhaps some commentators might lead us to believe in terms of India's potential for an Australian export market. If there was an easy answer to this, I am sure someone else would have thought of it by now.

Senator LIGHTFOOT—I appreciate what you have to say.

Dr Kersten—I do believe that it ought to be a primary objective of APEC that we ought to collectively work towards addressing inequalities of income, inequalities of wealth, and that we do that through various things. Liberalising the labour market, for example, is another way.

Senator LIGHTFOOT—In which country?

Dr Kersten—Across the region.

Senator LIGHTFOOT—Across the APEC region?

Dr Kersten—Yes. That is indeed one of the objectives of APEC.

Senator LIGHTFOOT—Are you saying that we should be able to import labour into Australia because it is more economically viable to do so?

Dr Kersten—That is a little bit more simplistic than what I had in mind, but perhaps we ought to understand what the barriers are towards, if you like, the fluidity, the flexibility, the mobility of the labour market.

Senator LIGHTFOOT—Do I understand you to say then—I do not want to put words in your mouth—that there should be a retreat in per capita income in Australia in order to lift the per capita income in developing countries?

Dr Kersten—I think, rather, that that might happen whether we like it or not, especially as an outcome of what is happening in the region at the moment. What we ought to be working towards are things like enhancing institutional capacities in the Asia-Pacific region. To take an example, the Australian Stock Exchange is working very hard at its relationship with the Jakarta stock exchange. It wants to open the lines of business much more effectively between the two. The way it is doing it is not only relationship building, but trying to create certain similarities between the institutions, even the technologies, so that that kind of exchange, should both sides want it to occur, is able to occur. It is identifying the identity of interest and then creating the institutional mechanisms that allow that interest to be made real, should you, in the future, want to move that way.

I think that is the situation with labour market mobility. I am not saying we should all cut our incomes in half to save the people of Indonesia. That is too simple. But, in the long run, we may see a relative decline in our income and a very small, marginal increase in the income of some of the economies of Asia relative to us.

Senator LIGHTFOOT—Is there a nexus between the two? You imply that there is.

Dr Kersten—There certainly appears to be at the moment. I would hope that there does not necessarily have to be. I do not know the answer to that question.

Senator LIGHTFOOT—With respect to APEC, you laud it as an organisation, and yet the private sector in Australia probably does not have a clue, in 99.9 per cent of the companies. How does one get the message to the private sector that it ought to be using APEC as a medium for expanding its trade and its own operations at all levels? What part does Austrade play, if indeed it is playing a significant role at all? In other words, could we use Austrade far better than we are, coupling that to APEC to enhance the private sector? There is a whole series of questions there—I apologise for that.

Dr Kersten—I am glad you warned me about your questions; I can see that there is substance to that. I agree with you that the Australian private sector's awareness of APEC is very poor. I said earlier that I thought the reason for that was that there is a critical lack of involvement of the private sector in a meaningful sense in the APEC processes. It is government driven.

Senator LIGHTFOOT—Is it irrelevant, the private sector involvement?

Dr Kersten—Without the private sector being fully on board in the APEC enterprise, it is not going to work. It is that simple. That is a simple conclusion. At the moment you have got the working groups, which are research organisations like ours, then you have got nothing, and then you have three individuals in the ABAC. Those three individuals cannot possibly carry the burden of communicating effectively with the private sector let alone involving them in policy making processes.

There needs to be a fundamental recognition on the part of government in Australia that we need to find a model to involve the private sector in policy formation. At the moment it happens within the bureaucracy. It is guarded carefully there.

Senator LIGHTFOOT—Almost jealously.

Dr Kersten—Yes, then it is conveyed to parliament and then it is conveyed to the leaders summit. Where is the private sector? Why would they take an interest in a process like that?

CHAIR—With the greatest of respect, Senator Lightfoot has touched on the issue that I wanted to get into. One is looking in Australia at a preponderance of small businesses, and small businesses have enough on their plates as it is, they claim, without being distracted by APEC and what it might be doing. That is not being critical of small business but that is their view of the world. How does one overcome this problem, given Senator Lightfoot's proposition to you?

Dr Kersten—There are a number of logical places you can start. You are talking about SMEs. They statistically make up most of the business activity in the Asia-Pacific region, 90 per cent, and a significant proportion of GNP. But what small business is not doing is maximising the opportunity that APEC provides of conducting their business outside of their own borders, of taking up the opportunities that APEC provides.

Why isn’t it doing it? I am glad you asked me that because I have here a project outline which suggests one way that SMEs can effectively tap what we are calling the opportunity of APEC. This is a project that is designed to first of all acknowledge that small and medium enterprises are resource poor and time poor. They cannot hire consultants to come in and train them and help them set up business overseas. They are often owner operators.

CHAIR—Could I just interrupt you for a moment?

Dr Kersten—Yes.

CHAIR—For the purpose of the record, could we identify this document so that people later on, those reading the record, know what you are referring to? It is entitled *Doing business in APEC: facilitating trade and cross cultural training on interactive CD-ROM for SMEs*. The page also includes the information, ‘Australia’s Expert Link to Asia. Research Institute for Asia and the Pacific. Project summary by the University of Sydney, RIAP.’

Dr Kersten—So SMEs do not have the resources that the larger companies have. They have certainly got the intellectual capacity. Often they are niche operators. Certainly there are opportunities for them in the region that for various reasons they are not taking up to the extent to which perhaps Austrade would like to see them doing it. One way to encourage them to move more actively into the region and to internationalise their business is to give them the skills and equip them with the information and, if you like, the confidence to take their business offshore.

This is a project that is basically a substitute for a consultant providing training to the likes of larger corporations like CSR or AMEX. It is an interactive CD-ROM that provides cross-cultural training using video and interactive technologies. You are able to go from this product onto the Internet and link to relevant sources such as Austrade for further information.

It is a product that has a long shelf life and maximises the differing technological levels of different economies. It is truly a flexible tool. We have developed a prototype for that in partnership with eight other APEC member economies, as part of our APEC work. The prototype is now being tested with small and medium enterprise focus groups and once we finetune the product it is my job to go out into the marketplace and find investors to produce this project.

Returning to your question about SMEs, if the government and organisations like ours provide SMEs with these kinds of services, they are more likely to go offshore to internationalise their business than they would be if those services and information sources were not available. The government can involve the peak bodies representing the SMEs of Australia—the Australian Chamber of Commerce and Industry, Australia Business Limited, and the

Business Council of Australia, a highly respected organisation representing possibly the larger enterprises in the Australian private sector. The government can reach a very wide audience through those peak bodies.These are sitting there waiting to be more actively involved in this process of policy formation and activation at APEC.

It has to go beyond just asking for a submission: what do you think, BCA? It has to go beyond that to actually change the way you think about policy implementation, to have the private sector at the table with you as a government representative, not keeping them outside and communicating with them through paper submissions. There is a lot more than can be done in that regard.

Senator LIGHTFOOT—You just had another aspect of my chain of questions. On the part that Austrade should play, or is playing, would you give the committee some insight into that?

Dr Kersten—Austrade has an enormous job. I am not qualified to say whether its budget or its manpower profile is adequate to suit the task that it has been given. I do not think Austrade has a significant role in APEC—it has not had one to date.

Senator LIGHTFOOT—Should it?

Dr Kersten—Yes, at least in feeding back to the government the feelings, the experience of business on the ground. I think that is an invaluable role that Austrade can play in communicating the views of business to government, certainly.

Senator LIGHTFOOT—Would it be a pivotal role in terms of bringing in SMEs?

Dr Kersten—Yes, it would be, but I would say alongside the peak bodies that already service SMEs, such as the ones I have mentioned—ACCI and ABL.

Senator COOK—And probably alongside what is now the annual small business ministers meeting in April.

Dr Kersten—Exactly, yes, and I have attended some of those. It is not just taking soundings from business, it is involving them in the next step as well that I think needs to happen.

Senator COOK—I was not going to ask a final question but this is a bee in my bonnet at the moment. Let me ask you this: do you have any comment on the view that ASEAN is driven, in part, by European envy of APEC and in another part by the possibility of developing an incipient EAEC which excludes Australia and New Zealand.

Dr Kersten—Driven by the EU’s envy of APEC? Can you clarify that for me please.

Senator COOK—Sir Leon Brittan sought, back in 1993, for the European Union to be observers at APEC meetings. This was not agreed to by APEC. There have been a number of requests by European countries to get inside APEC. In 1994, when on his way to Australia, the German President remarked that APEC could not succeed if it excluded

Europe and he then criticised APEC as if it were a European Union—which it is not. But he made the point that now it has got to be open regionalism at its best—something that APEC does stand for. In a way, I thought it hypocritical of a European to do that, because their union excludes the rest of us but our union cannot exclude them; but leave that aside.

As a consequence, the Europeans intensified their focus on getting a special interface with South East Asia, and that has broadened. The Asian consultative group in ASEM looks awfully like what an EAEC would look like and, up until now, it has been impervious to our requests to be part of it, despite the advocacy of our cause by such insiders as Japan and Singapore. At this level, do you have any comment to say that there is a European push to try and develop a rival association, particularly with the East Asians, and that some East Asians may see the ASEM as being a possible way of developing further, vis-a-vis the East Asian economic caucus?

Dr Kersten—This is a fascinating question. I agree that there certainly does seem to be a concerted strategic push on the part of the EU to maximise its access to Asia via ASEAN. And yes, they probably have encouraged ASEAN in its separateness, its strong self-identification as a separate entity from APEC. But the interesting thing is what is going to happen now. I think that that strategy arose from the numbers: over and over, Asia is the most dynamic economic region in the world; it has the fastest-growing economies, and 10 per cent plus growth rates are common.

Of course the EU wants a piece of the action and, as the EU—as opposed to just Germany or just France—it has a lot more clout globally than if each separate country within the EU were to try to maximise its opportunities within the region. It is commonsense: they are pursuing their own interests in probably the most logical way. It is definitely to Australia's disadvantage. The question is what is going to happen now. If the tigers have become pussy cats, is the EU going to be as interested in pursuing that strategy? Australia has a chance to demonstrate its long-term commitment to the region now, in a way that I do not think the EU is even going to attempt to do. This is an opportunity for us.

CHAIR—I think we had better stop there. Dr Kersten, obviously we could go on for hours talking with you and we value the information that you provided the committee with this morning. Thanks very much.

Proceedings suspended from 10.38 a.m. to 10.49 a.m.

HOOKE, Mr Mitchell Harry, Executive Director and CEO, Australian Food Council, 2-4 Brisbane Ave, Barton, Australian Capital Territory

CHAIR—Welcome. The committee prefers all evidence to be given in public but, should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. I now invite you to make an opening statement, and then we will proceed to questions.

Mr Hooke—Once again, I am delighted to appear before a Senate inquiry, in this case in relation to Australia and Asia Pacific Economic Cooperation. With your indulgence, I intend to tell you, firstly, who the Australian Food Council is—I was asked that question a minute ago—and what the processed food and beverages industry is all about and where we are going, and, secondly, what I consider to be the legacy that we bear of the Uruguay Round of multilateral trade negotiations, what our overall strategy is, and where regionalism and APEC fit within that context.

I will then talk a bit about AFTA-CER. I am happy to take a few questions on the North American Free Trade Agreement because it appears in your terms of reference, but it is not really that big a deal for us in terms of institutional arrangements. With your indulgence, Mr Chairman, that is a good suite of issues that will keep us going for an hour and probably more.

The Australian Food Council became operational in June 1995. It was established as the peak national representative organisation for the Australian processed food and beverages industry. From 16 founding members, we now have over 120 companies and subsidiaries and associates representing in the order of 80 to 85 per cent of the gross dollar value of the sector which, as I will tell you, is somewhere in the order of $44 billion—that is the total industry. We largely represent the highly processed end of the sector.

Our charter is to promote a domestic business environment conducive to international competitiveness, strong and sustained investment and business growth and profitability for our member companies complemented by greater export market opportunities. Our agenda for growth centres on structural and attitudinal changes to the socioeconomic environment necessary for our businesses to compete successfully in the increasingly globalised economy—I underscore that; I will come back to it later on—and the more discerning domestic and export consumer markets.

I will give you a snapshot of the industry. In 1995-1996 we employed 160,000 people. That is 17½ per cent of the manufacturing work force or, better put, almost one in five. Annual turnover was $43 billion, which is 21.7 per cent of total manufacturing turnover. We are simply Australia’s largest manufacturing industry. We operate in all states and territories. New South Wales and Victoria are roughly about 30 per cent each, Queensland 20 per cent and there are other major locations of manufacture in capital cities and particularly in regional centres—no better example of that than the Murray Goulburn, which stretches right up and across the New South Wales border into the Riverina.

We export about 17.7 per cent of total sales, second only to metal products manufacturing among the manufacturing sectors, and ahead of the average export performance for total manufacturing of 15 per cent of sales. Exports of highly processed foods and beverages are around $4.6 billion—I have been talking in 1995-1996 dollars—and account for 62½ per cent of total processed food and beverages.

Together with agriculture, the agrifood industry is valued in the order of $64 billion. It counts for 12 per cent of national GDP, eight per cent of total employment and 23 per cent of the nation's exports. Quite simply, we are fundamental to the Australian socioeconomic significance. We put something like 19 billion meals on the tables of all Australians and a lot more in between meals as snacks, and we do it pretty well.

We have had a commendable export record in the last decade. In the eight years to 1996-1997, exports of highly processed—in other words, elaborately transformed—manufactures grew by 155 per cent to $5 billion, of a total $11 billion of processed foods and of a total $17.2 billion of all agrifood exports. Again, I cannot underscore just how important and how significant the growth—

Senator COOK—Can you just give that time frame again?

Mr Hooke—Eight years to 1996-1997.

Senator COOK—Right.

Mr Hooke—I gave you 1995-1996 before—$4.6 billion—and now it has gone up to $5 billion in 1996-1997, because I had figures only for total manufacturing in 1995-1996 dollar terms. I was kind of playing with statistics a bit there, but they are honest. Minimally processed products in the same period grew by only 36 per cent to $6 billion, so you can see where the accent on growth is.

I can give you our major export markets for processed foods and beverages in 1995-96, in descending order of value of export and share of exports—I can put these into *Hansard* if you want them. They are quite interesting markets. Japan is running at about 28.3 per cent, at just under $1 billion. Then you get to New Zealand—the second one—at 8.2 per cent. The Philippines, Taiwan, Hong Kong, Malaysia, Singapore, Thailand, Saudi Arabia and the United States—those complete the first 10. So eight out of the top 10 are in the APEC region. Then you get to Indonesia, Republic of Korea, United Kingdom, Papua New Guinea and United Arab Emirates, which make it 11 out of the top 15 that are in the APEC region. That takes in the order of 82 per cent of total processed food exports, so the APEC region—given this is an APEC inquiry—is pretty significant in our scheme of things.

They cover a wide range of products, the major categories being dairy products, seafood, pet food, chocolate and other confectionery, and cereal products, which are biscuits, breakfast cereal, pasta and bread pre-mixes—I am just trying to give you a flavour of what we are doing. Then you are into margarine, fruit juices, sauces, soups and frozen vegetables.

The trade surplus of highly processed food and beverages in 1995-96—again, Senator Cook, I do not have the figures for the next year—exceeded $1 billion. So we actually import a fair bit, too—over $2 billion. I hasten to add that something well in excess of 90 per cent—I do not know the exact figure but it is well in excess of 90 per cent—of ingredients are sourced domestically.

A lot of the products or ingredients that come in are actually not available from domestic sources. Sometimes you cannot get things domestically like mango pulp—even though there are a lot of mangoes hanging around in the trees, we cannot get the pulp here. The hokey-pokeys you put in ice-cream have to be imported from New Zealand because they do not make them here. You cannot get a lot of fresh fruits for processing. You cannot get strawberries, raspberries, blueberries, blackcurrants and those sorts of things, so they all have to come in.

Our export growth reflects, firstly, the relative maturity of the domestic market. Like other developed economies, low population, economic growth rates and inelastic demand mean relatively low rates of domestic food market growth. The bottom line is that, if you are going to get growth domestically, you are largely cannibalising existing lines. There are some exceptions: some of the sports drinks—for example, the isotonic drinks.

There are limited opportunities for growth in profits sourced from rationalisation and reducing costs. Few expect a repeat of the 1970s and 1980s with falling commodity prices and rising retail prices. Then we got into the late 1980s and early 1990s where cost cutting and rationalisation were sources of profit. The bottom line is that the real sources of growth for this industry are in the export markets and those markets which are reflecting increases in real demand.

Our comparative advantages in this country are substantial—and I know, Senator Cook, you have heard me talk about this plenty of times before—but we have to be really careful that we do not equate comparative advantages with competitive strength because, when you look at the value added end of the chain, we can actually be quite weak in some areas, notwithstanding the significant improvements that we have made, which are reflected in our export growth.

Increasingly, the determinant of competitiveness, as differentials in raw commodity prices pan out on the back of continued trade liberalisation, is going to be conversion cost efficiency. As we see trade liberalisation start to bite substantially—and that is happening—we are going to see our comparative advantage in commodity prices start to pan out and that is going to throw the accent back into elaborately transformed manufactures in food and hone right in on conversion cost efficiency.

Our export growth also reflects what is going on internationally. These are really quite staggering figures—every time I trot them out, people's eyes just hit the deck. World trade in processed food is expected to be 75 per cent of global agricultural trade by the turn of the century. When you think of what we trade internationally in terms of commodities, by the turn of this century processed foods as a part of global agricultural trade will be running at 75 per cent—that is off 50 per cent in 1985.

Consumers are becoming increasingly sophisticated and discerning. They are demanding more specialised and differentiated food products, as you would expect with increasing incomes. Product differentiation is an increasing feature of the market.

In terms of globalisation, the bottom line is that global companies—not just in the food industry, but even so in the food industry—are continuing to internationalise their operations. They are increasingly moving investments around the globe to site facilities with the greatest strategic competitiveness advantage. Final manufacture is increasingly a feature in the country of consumption. So we are seeing the globalisation of food businesses as being consistent with the deepening globalisation of the world's economy. By the turn of the century, foreign affiliate sales worldwide will exceed processed food exports by a ratio of 5:1. In the US alone, in the mid-1990s, sales of foreign affiliates of US companies were four times the value of US exports of processed foods. So trade and investment liberalisation are the imperatives.

But we face substantial impediments to export markets, both in the form of trade barriers, tariff and non-tariff, and subsidised competitiveness of other exporters. May I draw your attention to a document called *Expanding processed food exports: priorities and strategies for joint action on market access by government and industry*. It is with some pride that I put this on the table, having being one of the architects of its initiation. It is an excellent study and it gives you a very good overview of the barriers that we face, and also some insight into the strategies that we are conducting, which I will go into shortly. I have provided copies for the senators.

Lack of market access is a major constraint to export growth for our industry, restricting investment, growth, profitability. There is a direct correlation between high trade barriers and a low level of business, notwithstanding that, as evidenced in the increase in exports, Australian companies are still trading over many of those barriers. Despite progress in international trade reform over the past decade, the trading environment for food and beverages globally is littered with major barriers and obstacles. Our exporters face the dual impediments of not only access barriers, but, as I said before, the domestic and export subsidies of our competitors. You could ask the canned fruit industry all about Greece and peach production, for example.

International trade in food products is characterised by extensive regulatory and technical impediments, through product, health, quarantine and labelling standards and inspection processes, in addition to these high tariff barriers. When I was at the World Trade Organisation in late October I met the Director of the Industrial Division, Mr Opelz. He was staggered that we still face tariff rates on processed products of 40, 50 and 60 per cent globally, yet the average trade weighted tariff of industrial products is 3½ per cent. He was kind of suggesting that his section had done pretty well in terms of trade reform and that processed foods were lagging. He is dead right. We bear a legacy of the Uruguay Round of multilateral trade negotiations. We were barely on the agenda of that round, despite the focus on agriculture and that processed products are similarly covered under chapters 1 to 24 of the harmonised system of tariff classification.

I make these comments not as a criticism of government and our negotiators in their focus in the Uruguay Round, but rather as an observation that the food industry was not terribly organised to get itself on the deck. I was Chief Executive of the Grains Council at the time, through the Uruguay Round of trade negotiations, and we were certainly pursuing our interests as hard as we could in that area. The food industry was not organised to get itself on the deck. But I have to say that this government has clearly taken processed foods up onto the agenda, and it is there now in a big way.

Going back to the legacy of the Uruguay Round for our industry—and it is a legacy—there is a continuation of high tariffs, of entrenched tariff escalation, where countries commonly concentrate high percentage reductions on products where tariffs are already low and minimise cuts on sensitive items with high tariffs, in particular on basic and processed dairy and sugar products. Tariff escalation's bottom line is that the more you go down the industrial transformation line, the higher is the degree of protection.

Worldwide there is increasing pressure on downstream manufacturers to bear the cost of inflated inputs as a consequence of protection and subsidies for agricultural producers. You might like to explore that a bit later on, because in my capacity as chair of the international trade committee for the world's food and drink associations I can say that this is a very important part in terms of bringing the Europeans and the Americans on board in driving reform. They are now not getting compensated in restitution payments at the top end for the inflated costs of their inputs at the bottom end, and that is really starting to cut the mustard in terms of where some of the drivers for reform can come from. But we can talk about that later on.

The other legacy is that the Uruguay Round did not sponsor any change in trade growth of processed products, notwithstanding that trade growth has been more rapid for processed products and basic agricultural products. That is the conclusion of an OECD study, which I would be more than happy to table. I think DFAT and DPIE have got it now. I was given a draft copy when I was in Europe.

The underlying problem of the Uruguay Round agreement, as it affects our industry, is aggregation—a simple word. It permitted flexibility great enough to defeat the discipline of the trade rule, whereby aggregating groups of food products is possible to blunt the application of rules to sensitive sectors. It appears at every point of the agreement. On export subsidies, the definition of product groups was sufficiently broad to provide for a maintenance of or an increase in expenditure on sensitive products. On domestic support, the proposal for cuts by product was replaced by cuts in total aggregate measure of support across all products—Senator Cook, I know you are across this stuff—allowing production dependent on support to continue while support was cut in the less sensitive areas to meet reduction commitments. When coupled with the calculated designated base period, many OECD countries had fulfilled their obligations in some areas before the implementation period even began.

On market access, where tariffication applied, products were aggregated to the four-digit level of the harmonised system of tariff and tariff equivalents, determined on a price gap at this level of aggregation. For example, HSO406 is cheese and curd, which includes products ranging from parmesan cheese at $9,000 per tonne to fresh curds at $600 per tonne. This provides an opportunity to factor in a great deal of 'water' in the tariff in choosing uniform ceilings binding across all products—that is, tariffs that bore little relationship to the actual levels of protection.

Senator COOK—Mitch, you might just explain quickly what 'water' in tariffs means?

Mr Hooke—Basically, building it up so that you can make the cuts in the less sensitive areas. The tariff cut formally requires a simple unweighted average cut of 36 per cent, 24 per cent for developing countries, over six years. As I am sure others have pointed out to this inquiry, this means that a 100 per cent cut on a two per cent tariff could offset, say, 15 per cent cuts in two highly protected products.

So aggregating product groups for which countries would provide minimum access of three to five per cent of domestic consumption again allows high protection to continue in some areas. This gets pretty technical. The bottom line is that we just got caught in the swill of aggregation. It is as simple as that. It was not sufficiently differentiated to make the cuts meaningful, so you could have high tariff protection continuing whilst you make cuts in the less sensitive areas.

But the Uruguay Round did make some substantial changes which have not actually been well recognised. With your indulgence, Chairman, I am going to go through this stuff because I think you will find it particularly fascinating. One of the things that hit me in Europe was that, of a majority of the first 100 disputes before the World Trade Organisation, many relate to the sanitary and the phytosanitary and technical barriers to trade agreements. Each one of those disputes is being sorted out—I will give you some examples in a minute—and the panels' determinations are consistently refusing to sanction trade discrimination on the grounds of production related processes. The change that was made in the Uruguay Round agreement was that they moved the consensus to adopt to consensus to reject on dispute panel findings, effectively removing the power of veto of any single country.

That means that the dispute panels are establishing by case law the substance to the rules governing international trade. The European growth hormone ban on cattle from the United States and Canada came down against them because they were discriminating on the production related process, and not on the grounds of a public health or sanitary and phytosanitary problem, and the WTO kicked them out. This WTO, unlike many of the other international conventions, has the teeth to make these things stick. Some 115 contracting countries signed on to disciplines in the Uruguay Round of MTNs, to which some 31 economies, including China, Taiwan, Saudi Arabia, Vietnam, Jordan, Oman and Russia, which are all major importers of Australian goods, are now seeking accession. It means that shrimp, prawns and turtle excluder devices will not get a guernsey into America and tuna with dolphin-free nets will not get a guernsey either.

The Europeans will have to get their domestic policy into order and allow beef imports that are treated with growth hormone promotants. They will have to pay $250 million compensation a year to the United States or Canada or suffer trade sanctions from the United States without recourse to the World Trade Organisation. The gophers over there tell me they are going to start with cognac brandy, which will put X thousands of people out of a job in France. Nothing will focus the minds of the French more acutely than not being able to export their brandy! I am not sure we want that on the *Hansard* record.

Senator COOK—While you are on this winning streak—

Mr Hooke—Hang on. This is not a winning streak.

Senator COOK—Can I just ask you one quick question, and you might be able to pick it up in your presentation. There has been a bit of criticism, and I have heard some today, about the dispute settlement provisions in the WTO—whether they are fair, whether they work properly or whether they are biased. You just gave the case of animal growth hormone promotants. Kicking the Europeans out versus the Americans is one big power against another, but what if it was Australia or New Zealand—or some smaller country—versus America? Do you think you would get the same decision? Is it based on the facts or is it based on the power?

Mr Hooke—I can only answer that by going to the principles. Gary Sampson, as you know, is an Australian who heads up the environment directorate at the WTO and he said that it would be the kiss of death if the WTO were to determine trade rules on the basis of production related processes. I am coming at this thing on dispute panels from that aspect. I have not had anywhere near enough privileged insight into the operations of those dispute panels to make a judgment as to whether they are fair.

The Uruguay Round, as you know very well, enshrined the fact that we are going to have a rules based system and that we would have an effective dispute settlement process. I am surprised to hear what you have said because nobody has told me that they think they are getting a raw deal—other than those who are losing panels, of course. Nobody has said they are getting a raw deal in going to a dispute system.

The fundamental principle is that they are sending a clear message to countries that they cannot seek to impose their social, ethical, moral, religious, domestic, political, environmental, or whatever, views on any other country by virtue of trade sanctions. If you accept that that is a fundamental principle of a rules based system of international trade, I suspect those who think they are getting a tough time of it are probably losing against that principle.

Senator COOK—I think the criticism we heard was theoretical criticism—that it does not look right, basically.

Mr Hooke—I do not agree with that. I think it does look right; I think it is excellent. There is no other way you could do it. I will bet your religion is no better or worse than mine and that is the point.

Senator COOK—I don’t know; I think yours is probably better than mine!

Mr Hooke—I will take that question on notice.

Senator COOK—It was just a statement.

Mr Hooke—I am kidding around. So that kind of paints the picture of, firstly, where we are going in terms of exports, secondly, of what we have got in terms of the challenge of getting over market access barriers and reducing subsidised competition, and, thirdly, that there were a couple of good things that came out of the Uruguay Round. I thought your question was going to be about what that means for gene technology labelling. It is quite profound actually and it is one of the reasons—

Senator COOK—What does it mean?

Mr Hooke—The bottom line is that, if we diverge from the principle of substantial equivalence in mandatory labelling of products derived from gene technology, we will find ourselves in a trade war—a trade dispute is a better way of putting it—because it will have to apply to imported products. Unless the product is substantially different for the purposes for which it is used—in this case, because it is a food: composition, nutritional value, functional properties, organoleptic properties, that is, taste, smell and all that sort of stuff—and intent to which it is to be used, that is, the cultural, social and ethical considerations of the dining and eating experience, to require it by law to be labelled as a product of gene technology is not only inconsistent with international convention, which I have just been going through, but also impractical and impossible to enforce because you cannot detect the thing.

It would probably find us carted off to a dispute panel before the WTO on the very grounds we have just been going through. It has major implications and that is one of the fundamental reasons why ANZFA has got it right in its recommendation to health ministers and why this government has got it right in terms of those ministers who have a position on it.

Our overall strategy is, as I said, firstly, to look at the legacy in the international arena and, secondly, to look at how we are going to tackle multilateral, regional and bilateral fora. We have some key strategic objectives. They are to tackle the high tariffs as a market access priority and to achieve priority for consumer packed processed foods and beverages on the international trade reform agenda. We are doing that pretty well, with great support from this government and the opposition.

We have developed a critical and effective partnership with government, and priorities and strategies for joint action on market access. Our key strategies include getting the expanding processed food exports study done. We have the appointment of a dedicated market access facilitator in Graeme Thompson within the department, working to our industry. We have developed a market access guide which is a ready reckoner. This is one of the initiatives through the Supermarket to Asia Council, but we were key in putting this together. For the record, this is called the *Market Access Guide: Supermarket to Asia Council*. It is a little brochure and I have given the senators one each.

We are also in the process of establishing a user-friendly database. There is TNAS over here in the Department of Foreign Affairs and Trade—I am not sure what that stands for; the trade negotiation access system or something—but that is mainly to do with tariffs. We are negotiating with a commercial company to go beyond that and we will link in with the department, government, and that will be a special provision to our companies in terms of a user-friendly database.

We are about promoting an export culture and global awareness. We also want to differentiate between agricultural commodities and consumer packed goods. As I said before, agricultural commodities and transformed products are all collectively classified under the international tariff harmonisation classification system in chapters 1 to 24. If we are going to get deeper cuts in processed products, we have to differentiate them—not separate; differentiate—from agricultural commodities. We are looking to pursue increased market access through this integrated approach to multilateral, regional and bilateral mechanisms.

Under the World Trade Organisation—you know all about that—our focus in the short term is: the agricultural negotiations mandated to commence in 1999; the sanitary and phytosanitary and technical barriers to trade agreements to be reviewed in 1998; the review this year of the trade related aspects of intellectual property rights, TRIPs, and we will be particularly concentrating on biotechnology and geographical indicators; a review of the operation of trade related aspects of investment measures, the TRIMs agreement, in 1999; and the continuing work on the so-called new trade issues of trade and environment, trade and competition policy in particular, and the trade in biotechnology which I referred to.

Regionalism: we support open regionalism—the externalisation of preferential trade arrangements. We support that being critical to reinforcing multilateral trade reform enabling closer economic cooperation among diverse member economies. The regionalism has really developed dramatically, as you know. There is a plethora of regional free trade agreements either in the form of trading blocs with preferential access arrangements or concessions between parties or coalitions of interest. Thirty years ago the European Community stood out as a unique experiment in regional integration in an international trading system that was otherwise dominated by GATT. Today, there are more than 100 bilateral or regional groupings that have been identified by the WTO. The driving force behind them of course is this propensity towards regionalism in economics and geopolitics forging cooperative arrangements in growth areas, capitalising on natural advantages of geographical proximity, cultural familiarity and resource endowments. The take-home message for us is that they should underpin and not undermine the multilateral trading system.

As a medium sized trading nation, Australia has a strong interest in an effective multilateral trading system. Our interest would not be best served by confining our trade to one or a few particular regions on a preferential basis. The World Trade Organisation needs to keep pace with the most ambitious regional trading arrangements. APEC is a model of open regionalism. It is a good example. We will require a continued focus on convergence of MTN and the regional trade liberalisation in pursuing the goals of the WTO, keeping up with it all. I suspect few countries would support the world fracturing into three introspective trading blocs—Europe, the Americas and the Asia-Pacific—but, unless multilateral trade reform continues unabated, I suspect that regionalism will predominate.

There is a pretty strong message for us in all of that and that brings me to the APEC forum which provides for cooperation in reducing the barriers. We see APEC as a Clayton’s negotiation. It is a voluntary process. It can and does act as a catalyst for promoting trade and investment liberalisation globally. It is capable of reinforcing the multilateral trade system. It will maintain momentum behind the trade liberalisation process. It is also capable of delivering earlier reforms. It laid the foundation, for example, for the information technology agreement of the World Trade Organisation. Its other defining strength is in its ability to deal with qualitative restrictions or administrative issues on a product specific basis, for example, the mutual recognition of standards and conformity, and the detail of quarantine and export inspection consistent with the WTO sanitary and phytosanitary agreement. I underscore the words ‘consistent with’.

Discriminatory regional trade arrangements in the former trading blocs are not in our interests and therefore we have no intention of pursuing that as a goal of APEC. We see it as a complement to and as a driver for building momentum into the World Trade Organisation where the real cuts and the more sustained cuts can be made. Our focus therefore has been in three areas in concert with government: first, the individual action plans. This took a lot of time and effort and resources in the early phases. They are voluntary. They are unlikely ever to be used as the basis for tight legally enforceable negotiations, as is the case under the WTO. They are supported by market access profiles, again an extremely resource intensive exercise for industry organisations going through and checking those for accuracy and, dare I say it, integrity.

CHAIR—Are they any use then?

Mr Hooke—They were and they still are. They are a good resource base. As you might expect, the IAPs, particularly in relation to food, have really not gone much further than what the countries committed to under the WTO and the long-term objectives of the Bogor declaration. There is not a heck of a lot in the middle ground there, particularly for food. In some other sectors I am told it is a bit different. Where we sit with the individual action plans is that they are currently on the table. I would not take them off the table; I would leave them there.

But we have then focused on the second area, where we are really driving, and that is this early voluntary sectoral liberalisation and the food nomination. I have to say to you that it has been quite an achievement to get this up, and there are a few key lessons. As you would be aware, food was given priority of one of the 15 sectors for early sectoral liberalisation. It is quite an achievement given the sensitivity that agriculture and food have in the international trading environment.

Senator COOK—It was your doing, Mitch, wasn't it? You lobbied really hard about it.

Mr Hooke—I would like to claim the credit for that, but I would not.

Senator COOK—But you lobbied really hard about it.

Mr Hooke—We lobbied very hard. I first twigged to the idea of this thing when I was invited to be part of Australia's official delegation to the ministerials in Singapore. I observed what IBM was doing with the IT—driving it internationally up through APEC and up into the WTO—and I remember saying to the minister, 'Why don't we do that on food?'

I have never been of the view that if you think of something you are the only one—somebody else will as well—and there were 64 nominations for early sectoral liberalisation for the next ministerial, so everybody was kind of thinking of the same thing. But we got mobile, and we got a tremendous reception from the government—the department—to move this ahead and to put it on the table. There were a lot of strategies about how we might do it, how we might get sectoral bits and what we would put up.

That is the first lesson out of it: how effective that relationship between government and industry can be when they get mobile. The second lesson out of it was just how effective an international network of industry can be in driving the cause. As I think I said before, for my sins I am the chairman of the international trade committee of all the world’s food and drink organisations—the International Alliance of Food Product Associations is the formal title.

We actually lobbied every single one of our APEC member economies in that alliance, and it focused their attention. We had the Canadians off talking; we had the Americans off talking; we had individual member companies, for example Kraft and some of the other multinationals in America, starting to move this stuff along; and it really focused their minds. All of a sudden the American officials were getting beaten up, in a metaphoric sense, not just by Australia but also by their own constituency saying, ‘Hey, this is important’—so much so that you have seen the US GMA and the US National Food Processors Association really going strong: press releases, taking out full page ads, pursuing this and after a fast track negotiating authority.

So all of a sudden their sort of momentum is building internationally. IBM did it with the IT agreement and, boy, did anybody who has watched international trade negotiations see that thing go past? It was like the comet, wasn’t it? It was unreal. We spent 10 years on the Uruguay Round. It was agonisingly slow, and information technology went past like a rocket. Sure, a lot of that is because they did not have baggage behind them. But they also got their act together. There were some pretty good lessons in that for us.

There is a downside to all this, and that is it is not over until the fat lady sings. We have got a lot of work ahead of us, as the senior officials meeting in Penang recently demonstrated. We have got on to the agenda, but we have still to establish a framework that can be for the implementation as a recommendation to the leaders meeting in November—I think it is—this year. So we still have some work to do and we will again be going out to our mates offshore to get them to drive their countries along. Early voluntary sectoral liberalisation, the food nomination, is where we think we can actually do something meaningful.

The third area of focus is harmonisation of standards and conformance and mutual recognition arrangements. There are a couple of parts to this. The first part is the APEC food mutual recognition arrangement. This held out some promise in the early stages. The intention was to provide an acceptable level of insurance to importing countries and that their technical regulations on safety fitness for purpose and labelling were complied with while, at the same time, minimising point of entry inspection and control. It would ensure that the procedures in testing laboratories, et cetera, of one country were accepted by another country and that additional conformance testing was not required at the point of importation.

Senator LIGHTFOOT—Just through APEC?

Mr Hooke—Through APEC—correct. It started out as a more ambitious project—with firm commitments required from participating countries and specific sectoral arrangements developed for identified product categories—but it has been substantially softened to the point where we have got a fairly benign umbrella agreement with a capability to do sectoral agreements as annexures and on a bilateral basis. So, to put it bluntly, the uptake is slow.

At the recent meeting of the APEC standards and conformance subcommittee the chairman, from Malaysia, exhorted other members to participate. At this stage, only four participants have agreed to enter into an agreement pursuant to the umbrella agreement—it sounds bureaucratic but that is the bottom line—New Zealand, China, Singapore and Australia. Australia is, in technically correct terms, 'awaiting approaches', which means we are regarded as a participant. Those are the four countries.

The fundamental problem behind all of this is that many of the developing economies' standards and conformance are not up to scratch, and we do not want to enter into an agreement that recognises all those as being okay when they are actually mickey mouse. If you think we have a problem, you want to hear some of the Japanese and the United States arguments. So that is the problem with it.

Food labelling is one of the other priority areas in which the APEC members have agreed to accelerate the alignment of their standards with international standards, to be completed by 2005 for developed member economies and by 2010 for developing member economies. We committed ourselves in our individual action plan in 1996 to aligning food standards with international standards by 2000. China has proposed a project compiling information on food labelling requirements for all APEC member economies, which is due for completion beyond 1998. The latest meeting of that standards and conformance subcommittee ticked off 15 April 1999 as the target date, so the Chinese are actually on target for that. So they are moving ahead with that.

Technical cooperation: the Australia New Zealand Food Authority has sent a number of missions to APEC member economies to assist them to develop food control systems with funding from the APEC support program of AusAID. The aim is to encourage other countries to improve their regulatory systems to be, hopefully, more consistent with the Australian approach. Proposals will be considered in June for funding from the APEC central fund to carry out the work in 1999. This is a good one for this committee to support.

AFTA-CER: the development of preferential trade arrangements within the ASEAN free trade area are potentially a major impediment to Australian trade and a significant disincentive to investment. AFTA will provide for tariffs of between zero and five per cent on nearly all intra-ASEAN trade by 2003 and will establish preferential margins in the order of 55 to 60 per cent to the detriment of non-AFTA suppliers, including Australia.

We conducted a study in concert with the MTIA. We engaged the Centre for International Economics. We could get you a copy of this study. For the record, it is called *Economic benefits from an AFTA-CER free trade area*. There are two volumes, prepared for the MTIA and the Australian Food Council. The bottom line to it is that it basically identified that there were economic benefits to ASEAN and to CER as something that we ought to do. There was an estimated increase in GDP of $US16.1 billion at current prices. The gains to the respective economies are split ASEAN $US9.8 billion, Australia $US5.3 billion and New Zealand $US1 billion. This has slipped off the agenda a little bit. We have had some discussions with the ASEANs but, as you could expect, they are a little bit preoccupied at the moment.

We see the development of this forum as actually bringing APEC forward, and that is the reason I have raised it today. This study would have shown even more benefits if it had not amortised the benefits of APEC across the period because we know that APEC is going to deliver as a flux towards the end—closer to the 2010-2020 Bogor declaration agreements. One of the issues of this AFTA-CER is that, strategically, it is sound because of the preferential margins that we will face. That is the first point. The second point about being strategically sound is that it brings the benefits of APEC even closer. It is a tough one to negotiate because, again, it is a voluntary thing.

Mr Chairman, we could go into some of the bilaterals but those are pretty well covered. The reason for that rather lengthy dissertation is I have not had a chance to put anything formally to this committee. We have all that on *Hansard* now for you, and I would be more than happy to provide any other information or data you want. As you can see, we have taken a very active interest in international trade negotiations. We are focusing on those areas where we think we can add value and where we think the system can add value to us, and we are driving hard at that.

CHAIR—Thank you.

Senator LIGHTFOOT—I have a series of questions and I do not want to compromise my colleagues; and so, if you wish to give short answers, I am sure that would be acceptable.

Mr Hooke—The hint is taken.

Senator LIGHTFOOT—What part can the government play, through APEC, to assist your peak body—and your members, of course—with exports? Is there any specific area that you find needs augmenting or enhancing?

Mr Hooke—I come back to what I said, and that is that the focus at the moment on early sectoral liberalisation, the food nomination, has to be the priority focus. We are working very well with government in that area.

Senator LIGHTFOOT—Are you quite happy with the assistance so far?

Mr Hooke—I am very happy with the assistance. I have absolute and unfettered access to the department. We have been working very hard with them. We have put our wish list on the table. Every time we have put our wish list on the table, they have circulated that through all the posts and missions and have tested the water. We were very keen to have dairy products go into the actual tariff lines. We got ice cream and yoghurt in there, but we did not get butter and skim milk—largely because the reaction of some of the APEC member economies was strong, as you would expect. We tested the water. The bureaucracy has been—‘compliant’ is not the word—very cooperative.

Senator LIGHTFOOT—Would you see APEC as an integral part of the continued success of your members in exports?

Mr Hooke—Yes.

Senator LIGHTFOOT—What percentage are exports as opposed to local consumption? Have you got any idea of a generic figure?

Mr Hooke—Yes. The exports of all processed foods are worth $11 billion. The total turnover of the industry is worth $44 billion.

Senator LIGHTFOOT—So it is obviously a significant amount?

Mr Hooke—And highly processed food exports are worth $5 billion and have grown by 155 per cent over eight years to 1995-96.

Senator LIGHTFOOT—What is that, quickly, as an average annual—?

Mr Hooke—Good question.

Senator LIGHTFOOT—It does not matter. It is okay.

Mr Hooke—It is not consistently amortised: there have been some peaks and troughs, and what have you—it is about 14 per cent per annum compound if amortised.

Senator LIGHTFOOT—Are the non-food items that you export significant?

Mr Hooke—We do not cover those.

Senator LIGHTFOOT—You do not cover those? You are strictly food. No alcohol?

Mr Hooke—No.

Senator LIGHTFOOT—Other beverages?

Mr Hooke—Yes, but they are foods: non-alcoholic beverages? Processed foods and beverages are in there, yes.

Senator LIGHTFOOT—Milk?

Mr Hooke—Skim milk powder and UHT milk are, and some soft drinks are, but there is not a lot of money in exporting water around the world. Coca-Cola, in effect, is one of the largest exporters of franchises. Yes, there are some beverages, but largely concentrates and those sorts of things. Beverages is one area where the consumption is in the country of origin, but there are some exports of beverages. I can give you those figures, if you want them.

Senator LIGHTFOOT—Yes, if you can—but on notice would be fine. I understand that your organisation probably represents the boys at the big end of town. Who are some of those? Would you care to mention some of them: Cadbury Schweppes, for instance?

Mr Hooke—First of all, if I may say so, I do not accept the premise that we only represent the big end of town.

Senator LIGHTFOOT—No, I did not say ‘only’, but I said that you do represent them.

Mr Hooke—We do; but okay, they are my words, not yours. We do not only represent those guys. We are structured in such a way that member companies have one vote. Sitting on my board is Goodman Fielder, Australia’s largest food company. Right beside them is—

Senator LIGHTFOOT—Where is the home port for Goodman Fielder?

Mr Hooke—Sydney, but they are all over the country.

Senator LIGHTFOOT—Internationally, is that their home?

Mr Hooke—Goodman Fielder is an Australian owned, Australian based company. Nestle’s home base is Switzerland, but they are very strong here in Australia. They are the second largest food company operating out of Australia. As you know, they bought a fair slice of Pacific Dunlop’s operations—the Pacific brand operations on the dairy side. But those guys sit on my board, for example, and right beside them sits a bloke who is the Managing Director of Longa Life Vegetarian Products, with approximately $5 million turnover, with one vote and representing small companies. He is extremely vocal and represents the interests of small companies very well, I would have to say.

Senator LIGHTFOOT—National Foods?

Mr Hooke—National Foods are there, yes.

Senator LIGHTFOOT—Cadbury Schweppes?

Mr Hooke—No, Cadbury Schweppes is not a member.

Senator LIGHTFOOT—That is interesting.

Mr Hooke—They are a significant omission, at this stage. But you have certainly got all those other companies. I could give you a list of the membership.

Senator LIGHTFOOT—I am interested in getting a cross-section of them.

Mr Hooke—We have Arnott’s, Goodman Fielder, Nestle, and Bonlac, which is a dairy company. We have Coca-Cola and Pepsi, in terms of the beverages you were talking about before. Then we can slip down into companies that—

Senator LIGHTFOOT—Just on those two, Coca-Cola and Pepsi, you would export concentrates, I would imagine—or do you export the bottled drink?

Mr Hooke—Coke imports concentrates.

Senator LIGHTFOOT—Does it?

Mr Hooke—The famous recipe!

Senator LIGHTFOOT—I see: to keep it secret. Is APEC subject to a standards specification, with respect to food imports into other countries?

Mr Hooke—Just give me that one again.

Senator LIGHTFOOT—We have an Australian standards specification with respect to food, in the pure foods legislation and so on. Is there any impediment to the export of Australian food to APEC countries as a result of that? Or is it easier to export as a result of that? In other words, do you have any formulae in food exports that are less or greater than Australian standards on the same products? Take MSG, for instance.

Mr Hooke—Yes, you do. But I am not sure whether it is greater or lesser in the context of where you are coming from, and that is a judgment about whether it is a better standard or a worse standard or something like that. Australia's standards are Australia's standards. We are moving to align those with international standards—in the work of the Codex Alimentarius Commission as we have indicated in our individual action plan—by the year 2000. But we would like to think our standards are pretty good.

Senator LIGHTFOOT—Are Australian standards—to quote a popular film—'as good as it gets'?

Mr Hooke—We are going through a standard by standard review at the moment, under the Australia New Zealand Food Authority, which is looking at every one of the food standard codes. But there are other regulations, of course, in terms of quarantine. Australia is observing the principles of the sanitary and phytosanitary agreement of the World Trade Organisation, but there are some standards offshore which are quite significant barriers to trade. Labelling requirements can be quite onerous in some countries. A book I have here will take you through what some of them are, and some of the quarantine centres, and some of the inspection standards when you penetrate a market. Even some of the shelf-life and labelling standards are quite draconian and quite prohibitive in terms of trade. Korea's shelf-life restrictions on UHT milk are a major trade barrier and, in fact, are being challenged under the WTO.

Senator COOK—Apparently you cannot get long-life milk into Korea, because they will not recognise it.

Senator LIGHTFOOT—Is that a surrogate protection for the local market?

Mr Hooke—Absolutely.

CHAIR—How much does this encourage our manufacturers to go behind the wall and take business out of Australia?

Mr Hooke—What do you mean by 'take business out of Australia'? It is an impediment to export, that is for sure.

CHAIR—It is an impediment to export, but does it encourage them to take their food processing operation behind the barriers and do the processing behind the barriers, in any way?

Mr Hooke—I do not know the extent of the direct correlation. I could not answer you as to whether it has or has not encouraged them. But, as a matter of principle, you would have to say that that would be an enticement. It is a good question. Yes, I suspect that it does happen—because you can build capability behind some protective barriers in those countries. So it is actually a bit of a tack-on to your investment strategy, anyway.

One of the other reasons companies build offshore—and it is the main reason—is that it is strategically beneficial to do so. They are wanting to export into those countries; but global companies are doing it anyway. Those that are Australian owned companies will do it in terms of manufacturing in the place of consumption, because it is in their interests to do so. The transport costs allow for that, and the purchase of raw commodities allows for that.

We still have companies telling us that they can buy Australian raw commodities offshore cheaper than they can in the domestic market here in Australia. That fluctuates all over the place but what it tells you is that if we continue to require our manufacturers, our food processors, here in Australia to pay inflated prices for their raw commodities we are exporting jobs.

Senator LIGHTFOOT—I have two more questions. What part do you think a GST, or a value added tax, would play in enhancing or decreasing exports, generally, of your representatives?

Senator COOK—A GST on food.

Mr Hooke—Yes, I know what he is asking me. I am just wondering how many hours you want to be here.

CHAIR—Would you like to take that on notice?

Mr Hooke—No, I can tackle it. I am more than happy to tackle it.

CHAIR—We do have limited time.

Mr Hooke—Let me get to a few bullet points. We will be making a submission to Brian Gibson's government tax task force—in fact, I am finalising it straight after here. We have done a stack of modelling work. We have engaged Access Economics to have a look at the tax treatment across food. It comes down to some fundamentals. The first is that wholesale sales tax is non-uniform, it is arbitrary and it is complex. It does to our industry what it does to everybody else. It is very narrow and very discriminatory. It applies, in our sector, to a lot of the beverages and things you were talking about—that is, cordials, soft drinks, confectionery, biscuits, snacks, pet food, that sort of stuff. There is about half a billion dollars in wholesale sales tax collected directly out of my industry. Every one of them pays for indirect taxes, the burden of wholesale sales tax, either directly or indirectly. It is a burden on the industry.

With any reforms for the introduction of a broad based consumption tax of, say, 10 per cent, you would need to have substantial offsets to business costs and you would need to have substantial increases in real disposable income of consumers if the industry was not to get thumped on the domestic market relative to other industries. In terms of exports, to the extent that food is not zero rated but exports are, there is a rebate on any GST paid on inputs. You will find that that will in fact improve our competitiveness offshore. At the moment the current system is a tax on business inputs and that is a major concern.

Senator LIGHTFOOT—And that puts a tax on exports.

Mr Hooke—Correct. We would be looking to abolish payroll tax. We would be looking for something in terms of FIDs and BADs and we would be looking for something in terms of petroleum excise. And, of course, wholesale sales tax goes. Taking out wholesale sales tax and payroll tax are absolutely critical requirements. Payroll tax is just like the WST is at the moment: it is narrowly applied, it is selective, it differentiates and it is discriminatory. If you leave that in with a GST you have got yourself a value added tax twice.

Senator COOK—Are you talking about a GST across the board on all items or of food being exempt, in terms of your submission to the Gibson inquiry?

Mr Hooke—We are not pursuing zero rating of food. A lot of people get exemption and exclusion mixed up, as you know. Exemption means that you are exempt on the final product but you are still paying it on your inputs; exclusion means you are rebated on your inputs.

Senator LIGHTFOOT—If you could put it into a nutshell, do you see it as being a positive move or is it going to be a negative move, subject to what you have said?

Mr Hooke—You have to have a package.

Senator LIGHTFOOT—Okay, with the package you outlined, do you see it with FID removal, with BAD removal, with payroll tax—

Mr Hooke—The positives outweigh the negatives if you get the package.

Senator LIGHTFOOT—Okay.

Mr Hooke—But no tax mix switch.

Senator LIGHTFOOT—My last question is rather crucial, I think. What effect do you think the standard tariffs application by the year 2003 is going to have on your organisation—positive or negative?

Mr Hooke—The ASEAN?

Senator LIGHTFOOT—Yes.

Mr Hooke—It will be negative if it is not externalised.

Senator LIGHTFOOT—How do you mean?

Mr Hooke—If they lock it all up within their own little arrangement and we suffer on the back end of those preferential arrangements—in other words, it will establish preferential margins in the order of 55 or 60 per cent. Those are pretty substantial walls to be climbing over.

Senator LIGHTFOOT—Should the government take special note of that?

Mr Hooke—They do but it does not hurt to remind them.

Senator COOK—Earlier, you put great emphasis on the need for continuing trade liberalisation and then you specifically emphasised ‘and investment liberalisation.’ Are you saying Australia should sign the Multilateral Agreement on Investment?

Mr Hooke—I am going to take that question on notice because I am not across it enough. I am well aware of what is going on. I know the detail but, until I have read it, I am not going to commit ahead of my council. But, just to add to that, by all accounts the principles are sound.

Senator COOK—From what you said it could be interpreted that you are saying, ‘Do not worry about APEC. Go straight to the WTO. Do it global. Do not do it regional.’ Is that the message you are leaving with us?

Mr Hooke—No. If I thought it could all be done through the WTO I would, but I think APEC is a hell of a building block for the WTO. As I said in my presentation, there are a lot of things that you can do on sector specific administrative regulation stuff on the way through to the WTO that you might not get done because of the broad brush of the WTO.

CHAIR—Mr Hooke, unfortunately we have run out of time. Thank you for your presentation this morning.

Mr Hooke—Thank you.

[11.53 a.m.]

ROBERTSON, Professor David Henry, John Gough Professor and Director, Centre for Practice of International Trade, Melbourne Business School, 200 Leicester Street, Carlton, Victoria 3053

CHAIR—Welcome. The committee prefers all evidence to be given in public but, should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. I now invite you to make an opening statement and then we will proceed to questions.

Prof. Robertson—Thank you. I have distributed a copy of this introductory statement, which I thought was a good idea, because I sent two papers along that were not direct answers to the questions that you are considering—although, I think both of them have an impact on some part of the reference. I thought it was best to give a few answers to the four points that appear on your terms of reference rather than just leave you in the dark.

First, let me just summarise what I had in mind. If we look at APEC, in terms of its original objectives we would come to the conclusion that it has been a success and that it has been useful. It has promoted unilateral trade liberalisation and transparency, and probably helped to bring the Uruguay Round negotiations to a successful conclusion.

It has removed administrative impediments—non-tariff barriers of various kinds—to trade, and that of course is also multilateral so it benefits all traders, and it has increased cooperation among business and governments from a very disparate group of countries. I think the disparity among the member countries is something worth bearing in mind.

APEC's future, on the other hand, may not be so straightforward. I think the Asian financial crisis will slow economic growth, without any doubt, for a number of years. Of course East Asia has been attractive because of its rapid growth over the last 15 years or so. This will remove some of the mystery that attaches to APEC. I think people believe that the Asian miracle is something that they need to be part of if they possibly can. That loss of impetus in the region is going to cause some reassessments of APEC.

Secondly, the enlargement that occurred last November, bringing in Russia, Peru and Vietnam, will have a great influence on the cohesion of APEC, on its structure and, probably, on its agenda. Thirdly, the Asian financial institution crisis is likely to weaken the influence of ASEAN. ASEAN, I think, has been an important force in the process of APEC.

In the past decade, open liberalisation has been consistent with Australia's multilateral needs in terms of the multilateral trading system and payments. The successful pursuit of Australian prosperity in a globalising system will depend ultimately on continuing the right kinds of domestic economic policies which are always at the root of success in the international arena.

APEC's record, I think, speaks for itself. On the whole, Australia and Korea, which started this idea, were concerned that they were outside the movement towards regionalism and did not have natural regional partners anywhere; so the idea of getting some kind of

Pacific fringe group to which they could belong and draw in other players seemed like a good idea. You have to admit that that was a major success, since the organisation has now been going for getting on for 10 years. In case somebody picks me up, of course I am aware of Australia-New Zealand closer economic relations, but that is such a natural relationship that I do not put that in the same class as regionalism.

The advantages of APEC were apparent to Korea and Australia from the beginning, but I still think that the Canberra meeting in 1989—where APEC started—was a surprise. It was a surprise that there was so much support and so many things happened. I think that element of surprise has continued in APEC's history, with the various leaders meetings each November setting new objectives and sending officials and ministers off to make sure that these objectives are achieved. Things like the Bogor declaration came as something of a surprise; it went much further than most people had expected.

But, within APEC, I think there is a key question, and that is what I call a clash of cultures: on the one hand, you have the Western or OECD group of economies which have managed to integrate through formal agreements with established schedules of liberalisation and targets and so forth; on the other hand, you have the Asian way, where the targets are agreed by consensus, where everybody's words are believed to have equal weight, and where the targets are pursued not formally, but with best intentions. That is still a bit of a hitch, I think, in some of the agreements that are being reached.

These two approaches were reconciled in the Bogor declaration to achieve free and open trade and investment in the region by no later than 2020. That is a very ambiguous statement because it is talking about free trade within the region, when in fact everybody talks about everything being non-discriminatory. So there are ambiguities in that statement alone.

In terms of Australia's economic objectives, APEC has to be judged a success because we did not have a natural regional partner—and we still don't—when you look at various ways of matching countries. Australia has a very dispersed trading pattern: we have very large surpluses in trade with some countries and very large deficits in trade with other countries. So we depend very heavily on a satisfactory multilateral system of trade and payments. We really have to be careful about any regional links.

Australia's trade growth has undoubtedly benefited from APEC, but a large element of that is probably the growth in the region rather than any of the institutional aspects. Above all, APEC has provided an important driver for most favoured nation liberalisation in the WTO. We saw that with the information technology agreement in Singapore where the ASEANs were active. We are seeing it again where there is now a move to try and get the early voluntary sector liberalisation extended to the WTOs so that the EU is required to provide some reciprocal reductions.

Australia has been important in APEC so far. Whether that will continue in the light of this changed membership is a question I think we should all be aware of.

As for regionalism itself, at the time of the late 1980s when APEC was under discussion lots of people were thinking that regional trade was a diversion from multilateral trade. Lots of studies have now been done, and they basically show that there is little distortion of international trade, that the dangerous trade diversion and investment diversion that follow from regional trade agreements have largely been offset by a gross trade creation in the sense of the trade of the member countries growing faster than they otherwise would have done, and of dynamic spill-overs through investment movements and larger markets and so forth. So regionalism is no longer the big bad bear that it had appeared to be.

On the other hand, regional agreements do emphasise reciprocity. Reciprocity is something that the Americans have had built into their system almost since the beginning and certainly since the 1930s. There is a danger in the United States proposals for bilateral regional trade agreements with smaller trading partners. The hub and spoke system, as it is called, does contain the threat that the big fellows—whether it is the US or the European Union—will, in fact, use their bargaining power to extract things from individual countries without forming an overall free trade area. They just have a centre and a lot of rays going out. So there are dangers that lurk in this hub and spoke approach to regionalism which is evident in the US.

Open regionalism, on the other hand, of course, involves regional economic integration without discrimination against outsiders. You will get a much better version of that from Garnaut and Drysdale this afternoon than you will get from me. That causes problems, I think, for the United States because of their concern about reciprocity, and that was evident in the Eminent Persons Group reports in the mid-1990s and indeed from the comments of Fred Bergsten, the Chairman, then and since.

The APEC subregional groupings are an obvious follow-on from the idea of regionalism. Apparently, you would think that these little groups within are in disagreement with the objective of open regionalism because you have these little discriminatory groups scattered around. But APEC, because it does not discriminate, is not notified to the WTO, whereas these little agreements are; therefore there has been no conflict so far. The three, of course, you are well aware of: NAFTA, which has certain controversial provisions; the CER, which is probably the purest regional agreement that there is in the WTO context; and AFTA, the most recent, where in fact, of course, the targets were brought closer and closer up until the recent financial crisis and institutional imbalances which have certainly raised uncertainties about AFTA.

There is a potential problem, and that is where some APEC countries might try and form free trade arrangements with non-APEC countries. We have not got that yet but, for example, NAFTA will ultimately include Chile. Chile is talking about an arrangement with Mercosur in South America.

Senator EGGLESTON—What does Mercosur stand for?

Prof. Robertson—I cannot give you the Spanish words for it but it is a customs union between Argentina, Brazil, Paraguay and Uruguay, and the title they have adopted is Mercosur. I have never bothered to learn Spanish, I am sorry.

Another possibility is the AFTA-CER link. I heard Mr Hooke mention this earlier. In September last year, I helped to organise a conference on that in Singapore. It was sponsored by the International Policy Study Centre and the Institute of South East Asian Studies, both in Singapore, Asia 2000 in New Zealand, and the Melbourne Business School. We ran this seminar to look at the possibility in AFTA-CER link. One of the papers I have given you is a summary that I wrote up afterwards.

Clearly, my interpretation of the meeting was that Singapore showed some interest and most of the other ASEANs did not. Of course, the arrival of the financial and institutional crisis has pushed that right into the background. I would not hold your breath on any of that.

On future directions, surprisingly Vancouver and officials meetings in Kuala Lumpur have maintained some momentum. But there are obviously uncertainties brought about by the institutional crisis and the financial crisis in the ASEAN countries. Clearly, the growth rate in these states will slow dramatically. The end of the Asian miracle will, I think, alter people’s attitudes, both to APEC and to ASEAN. One of the things is this European Union-ASEM approach. It will be interesting to see what does happen at the meeting which, I think, is a bit later this year.

The crisis could also provide a threat to liberalisation. I do not want to put too much weight on that, but I do not think, necessarily, that these countries are going to suddenly turn protectionist any more than they have always been. There will, of course, be a lot of external pressure from the IMF and other groups to ensure that they do keep their word on trade liberalisation. The only way for them to get things right is to make sure they get their economy strengthened. There is a threat of protectionism, but I do not think it is necessarily a dominant one.

Then there is the question I mentioned at the beginning of the accession of Russia, Vietnam and Peru, and what that is likely to do. I think it could alter the agenda and it could certainly lead to some changes in the economic targets. Where Russia fits into free and open trade I am not quite sure.

The US authority’s commitment to reciprocity brings its own problems too. It is not only that; it is the absence of fast track and all those other things which the US has to tangle with. That is another point to worry about.

I do think that this latest expansion is likely to reduce Australia’s influence, and I do not think that should be underemphasised. Australia has played a key role in driving a lot of the APEC stuff from the very beginning. I think we have done a lot of this with collaboration from ASEAN. They are also going to be weaker, and so the problems for us could be that the US and Russia take over so it changes character from an economic institution to something else.

On Australia’s interest, as a medium sized economy with these dispersed trade interests, we clearly have a major interest in a stable system of multilateral trade agreements. While APEC has been useful to promote trade liberalisation, transparency and economic deregulation, the regional institutions are much less important than the opening up of the domestic market to competition so that we can hold our own in the globalisation process. Unfortunately, I think that recently there have been some very mixed signals about approaches to economic policy, both from the government and the opposition.

Unilateral liberalisation is necessary for Australia to prepare itself. There is a lot of suggestion that somehow we have to belong and that institutional links are important. One of my friends referred to the discussion of regionalism as being an alphabet spaghetti! Anybody who is not an aficionado has trouble working out what the initials mean—like Mercosur.

Past attempts to fit Australia into the regional framework have produced some contradictions. I know Senator Cook recognises some of these. We were promoting trade with ASEAN at the time when our trade with North-East Asia was growing much faster, so the results did not quite come out like the policy drive.

Regarding investment deregulation, we have been talking about more investment in our neighbours but, in fact, if you look at the record, it is more investment in Europe and North America that takes place. That is the direction that firms choose to go.

Because APEC is non-discriminatory, it does not act in any way to impede our multilateral policies. It is not a barrier to getting overall benefits. But I think no regional institutional arrangement can really be a substitute for strengthening the structure of the Australian economy and maintaining its targets within the WTO. Thank you.

CHAIR—Thank you very much.

Senator EGGLESTON—What you have said is very interesting. With an economy like the Russian economy coming in, I am not sure what its commitment to free trade really is. As you said, the United States has this reciprocity approach. How can APEC survive in its current form and ethos if it has to accommodate these other economies? Do you think it is going to change somewhat, or will its outcomes be different? I suppose what that leads to is the broader question of how big APEC should grow to.

Prof. Robertson—They are all very pertinent questions where I can only give an opinion really because there is no substantial evidence to go on.

Senator EGGLESTON—Is it big enough, or has it grown too big to achieve its objectives?

Prof. Robertson—I would argue it is too big. Bringing in Russia and Vietnam adds a whole new stratum of political structures that the other countries do not have. At least the others are moving in the direction of economic deregulation, and even towards some kind of democracy. However, what you would call Russia is a monster. It is in such total disarray. What would it mean if the Russian government did say, ‘We commit ourselves to the APEC targets of free and open trade and investment by the year 2020.’ What would it mean? We would never know.

Senator EGGLESTON—In relation to Russia, there is its potential relationship with the European Union too.

Prof. Robertson—I agree. They are trying to play all the balls at once, it seems to me. The original objectives of APEC were economic. I think there was a hidden agenda there too, which was mainly to keep the Americans tied into the security situation in this region, which has been largely achieved. However, the ostensible objectives of APEC were economic. Where Russia can fit into that is very difficult to see. The same applies to Vietnam. They have a long way to go before they can join any kind of liberalisation program that is involved in a reasonable trade agreement.

Senator EGGLESTON—Do you see that as resulting in a dilution of the ability to achieve the outcomes and objectives that have been set?

Prof. Robertson—I would think so, yes, but I do not think that matters. As long as they are pushing in the same direction as a multilateral system, then that is okay. The institution is not that important. It is the direction it is pushing in that is important.

Senator EGGLESTON—Thank you.

Senator COOK—If I can just pick up on that discussion about size and concern about motives: the motives are reasonably clear from the United States and from Japan for Russia to come in. They are not related to the purposes of APEC; they are related to other agendas, I suspect, and also in the case of China. I do not quite understand why Peru was so important. I can understand Vietnam on the basis of its membership of ASEAN. Accepting that this is now the case, is there a case as well for India?

Prof. Robertson—That just makes it even bigger. I think it has already reached an unmanageable size, frankly. What would happen if India came in? We do not even know what their government is yet, do we, or whether they are going to continue to liberalise or go backwards?

Senator COOK—All the signs are bad, I have to say.

Prof. Robertson—We should feel pretty uncomfortable in a group with just under one billion Indians, over one billion Chinese and the Soviet Union thrown in as well. Our role will be greatly diminished, even now, without bringing India in. I am always proud to say that at any time I have been anywhere with Australia we have always pushed the right ideas. But if we are going to be outweighed by such major powers, and they are going to be interested in strategic issues rather than trade or economic ones, then APEC will be watered down, simply.

Senator EGGLESTON—Is there a case for a similar sort of organisation based on Indian Ocean rim countries which is separate from APEC?

Prof. Robertson—You will have gathered from what I said that I think this institutional alphabet is just becoming impossible. Why not do it in the WTO? We now have an organisation that does have some claws, that can achieve things, and these countries are, on the whole, members. Obviously, China, Russia and Vietnam are not, but India is and has always been a strong force in WTO.

Senator EGGLESTON—I suppose one of the points about APEC is its specific Asia-Pacific focus. The Indian Ocean has its own focus too in terms of the Middle East and

Africa and the Indian subcontinent. I suppose one could almost feel there are trade gains to be made in that area for Australia. I take your point anyway.

Prof. Robertson—We looked at it. It was looked at, as I recall, about two years ago when there was a big conference in Perth. I think it just lacks a focus, to be honest. Why did APEC succeed? Well, the Americans were concerned about growth in East Asia and they wanted to be part of it. The proposal from Korea and Australia drew them in without any real resistance. However, if you look at the Indian Ocean, I do not know about you but I do not find the thought of trading with India a terribly attractive prospect. Obviously, if you can sell them all a pair of socks we would do very well, but—

Senator EGGLESTON—It is a big economy though.

Prof. Robertson—But there is no focus there.

Senator EGGLESTON—I suppose that is true.

Prof. Robertson—It is not like East Asia and drawing in the surrounding OECD countries, basically.

CHAIR—They are all from Western Australia, and I am a Queenslander!

Prof. Robertson—I knew several of the committee were from Western Australia. I did catch that by looking down the list!

Senator COOK—Can I ask you a bit more about what you see as the impact of the Asian financial crisis on the institution of APEC? You made some remarks about that. Do you want to develop those a bit further?

Prof. Robertson—That is the really tough question at the moment, and trying to keep up with what is being written about it is difficult. I have not done any fundamental research, and I am not sure how you would start, to be honest. It does seem clear that what was happening was a disguised form of government support in the financial sector through the lack of prudential requirements being properly applied.

The consequence of that is that, once somebody pulls away the bottom card, they all fall down and we get into the mess we are. Added to that there is the institutional problem, the political structures and so forth which are making it difficult to make the right moves, although a lot of them are making the right sounds.

The problem is that whatever happens we are not going to be able to avoid a very drastic slowdown in economic growth. Clearly, these countries, where their nominal GNP has been cut, hugely, are going to have to go through massive structural changes. Australia did it at the end of the last decade and the beginning of this decade, and we had a lot of structural adjustment. Frankly, I do not think that anything we suffered is like what is going to happen up there.

There are going to be a lot of bargains available. The Singaporeans, who have vast reserves, will be in there buying up a lot of viable equipment and plant and getting it up and going again. But it is still going to take time and I think for three years there is not going to be any growth.

The worry that comes out of that is not just for us, but for the global economy. If you look at the numbers, over the last 15 years you will see that the growth has always been linked to East Asia. The fast growing trade has been by Europe and North America with East Asia, or within East Asia. With that growth centre disappearing, the world is going to have to shuffle itself about and find new patterns.

Senator COOK—Looking at where the future trade tensions lie, it seems to me you can make a case for arguing that the Japanese economy is so flat and domestic economic policy in Japan does not seem to be about going further into deficit to reflate it, so that potentially it will remain flat for quite a long time. This is our major trading partner. Japan has a big trade surplus with the United States, as does China. Japan's response to its economic situation is to try and export its way out of it—an export-led recovery—which means putting its goods in greater volume into the United States, aided by the exchange rate reductions that have occurred between the yen and the dollar. Already there are domestic voices in the US being raised about the trade surplus China has with the US. There is a history of argument between the US and Japan featuring the automotive sector, but not exclusively there, and the need to open up the Japanese market further.

Looking at all these things—and I will throw in the added question that this year is an election year in the United States for the House—the problems that fast track ran into are likely to be emphasised further. The US have put fast track further down their list of legislative goals. Do you see the possibility of—to say a trade war is too dramatic—a major trade confrontation of some sort with the United States insisting on greater openness in both China and Japan and trying to get the balance of trade surplus down? This is a classic case of US bilateral negotiation. Can you make some remarks on that or on how you see all that being played out? What does this mean for APEC, the multilateral forum in the region? Does it mean it is obsolete or it is being bypassed or what?

Prof. Robertson—That is a huge question—how long do we have? I will try to give you a view on that. One of the problems in the world at the moment is that the Americans are looking inward again. A lot of their politicians just say the most outrageously stupid things and get away with it, although people like Buchanan—

Senator EGGLESTON—That does not happen here, of course.

Prof. Robertson—No, of course not. But people like Buchanan can get away with basically 18th century protectionism in a statement for a while, then there is a reaction from the other politicians who realise it is nonsense. But there are huge dangers there. Of course, like any country, the problem of trade policy is always a domestic issue. It is not really an external issue. What is happening there is that the widening of the wage gap between the blue-collar workers and the rest of the working force, which is a natural reaction of shifting into higher technology and more productivity, is getting attention from people like Gephardt.

The Americans are not the most open-minded people I have ever met. They believe that only they can really produce anything and that, if something comes in that is better and cheaper, then it must be dumped; it cannot possibly be fair competition. That is another example of their protectionism. So there is this danger that they will latch on to these bilateral imbalances. One of the things I find—and I am sure you have had this experience too—is that Americans cannot understand that we run a trade surplus with Japan. They cannot believe anyone can run a trade surplus with Japan. Therefore the consequences of a multilateral payment system are lost on them. They look on it in a really 18th century—

Senator COOK—They just blink at you when you say to them, ‘Look at the comparison of your argument about the trade surplus Japan has got with you and the size of your economies—let’s reduce it to a comparative situation—and the trade surplus that you have with us which is even greater. What are you going to do about that? Apply your own logic to the bilateral relationship with Australia.’ They are just gobsmacked—

Prof. Robertson—Exactly.

Senator COOK—They do not know what to say.

Prof. Robertson—No, they do not—and it is very difficult to know how you get to them because of that. In terms of your key point, it is a great danger. I am just painting the internal picture, but your key point is that they are going to focus on their major trade deficits overseas—and China and Japan are the two biggest—and they will exert pressure.

I suppose in the past we have hoped that APEC would provide a forum where they meet on different ground—it is not about motor vehicles, film, hand-held telephones, Motorola, and all that stuff. That may still be a use for APEC. The leaders do meet in November, and leaders do not like going to meetings and not coming away with a bit of paper of some sort, so it does help a bit in that direction and APEC might help there. But, of course, APEC does not preclude those bilateral consultations.

Years and years ago, when I was in the government, I wrote some papers explaining that, basically, the American trade deficit is to do with their own domestic economic management. It has nothing to do with whether it has a trade deficit with Japan or China. If it were not those two countries it would be somebody else, because of their savings and investment imbalance. They have done something on that front because they have at least tackled the budget, although it has taken something like 15 years. But they are still not prepared to see that they are sucking in these imports. It is just the way their economy is; it is not somebody else’s fault.

Rising US trade deficits certainly is a problem on the horizon. It comes out of the adjustment in ASEAN too, because these countries are only going to be able to achieve adjustment by increasing their exports. They are not going to do a lot of that among themselves and they are obviously not going to get a lot out of Japan. That is going to leave North America and Europe, and in both those places the protectionist forces are quite strong—in Europe because of the high unemployment rate and in North America because of the wage gap—so there is a danger that both those will start to find non-tariff ways of reducing imports from these countries, even though that is the only way they are going to come out of it.

Senator COOK—What are the threats to Australia in this sort of thing? Just going back to the cars issue in 1985, Mickey Kantor came back waving a piece of paper saying he had won. The rest of us all thought the Japanese had won—if there was a winner and loser in those negotiations.

Prof. Robertson—Neville Chamberlain did that too.

Senator COOK—Yes. And Hashimoto went from media minister to prime minister on the back of his alleged success in negotiating with the Americans. The problem for Australia, though, was that Japanese suppliers of component parts to the Japanese automotive industry maintained their market internally, American suppliers of component parts to the Japanese automotive industry increased their market, and Australian suppliers to the Japanese automotive industry had their market reduced significantly. So the outcome of the clash between the US and Japan could be said to have resulted in no change in Japan, an improvement for the United States and a loss for third countries without the bargaining clout, like Australia.

When you now come up to this getting even more attention across a wider range for all sorts of reasons, some of which are silly, what does Australia do about this? How do we take care of ourselves in that sort of situation? Should we be taking initiatives within APEC? Should we be doing other things?

Prof. Robertson—I think the lesson for—I hate to use this word—a small country, a medium sized country, always has to be that you have to be smarter and quicker. That is the only way, because if the big fellows start rolling around with protection then you are in real trouble. That is why I emphasised that it is domestic policy that is crucial to us being able to compete and to find our way into those markets. That seems to be the only solution because, in spite of what one of the current ministers has said, we are not going to win very much through bilateral negotiation because we are not big enough. So the only thing we can rely on is being quicker and smarter.

CHAIR—How are we to be quicker and smarter? What are the leverages that we need to use?

Prof. Robertson—The first thing we have to do is open up our labour markets so that there is quicker movement from one industry to another. We probably need to continue with some form of assistance on R&D because that is where you get quicker. We clearly need to speed up what is happening in the docks and in transport. We need to find new and quicker ways of moving things. We will need to reward enterprise because very often it is not the large firms in Australia that go out and win the exports, but the small ones. That means looking at the tax structure, I think. There are a whole string of domestic policies that could be used to make producers more competitive and quicker at picking opportunities. There is not a government policy solution on things like that.

Senator COOK—The sorts of changes you are talking about obviously also require some domestic adjustment considerations. It is not just a matter of setting targets in those areas; it is a matter of managing the adjustment process. We always talk in the Australian economy about the targets and outcomes. We talk very little about how you get there and how you manage the competing forces to do so in a constructive way, but that is another matter entirely.

Prof. Robertson—A very difficult one.

Senator COOK—I have just one other thing before I finish. The foreign minister—not unsupported by our foreign spokesman either, and not unsupported by me; in fact, I agree with him—has been talking recently about the IMF bailout of Indonesia saying that there ought to be a bit more consideration about the domestic and social consequences of the change occurring in that nation. I was very keen to get from DFAT the other day in our estimates process whether this means we are talking about watering down the objectives set in the IMF package. The answer is: no, we are not. But it is not quite clear what we are talking about other than expressing a concern about social unrest and disquiet.

I think it is reasonable to say that, because of the large scale and rapid restructuring necessary under those bailouts in the economies of Thailand, Indonesia, and South Korea, because Malaysia imposed an IMF package on itself without waiting to be asked and because the other economies affected will also have a fair degree of fairly rapid restructuring and opening up of their economies, the social consequences of that will start to be acute. Do you think that APEC might spring some sort of further limb to provide some way of dealing with this or absorbing the pain on this front? It is seen as being a trade organisation, fine, but these regional tensions are going to give rise to some sort of need for international expression. Is APEC a forum for that?

Prof. Robertson—I do not think so. I think that was what the leaders agreed in Vancouver. The Japanese wanted to set up that special fund and the others said, ‘No, let’s leave it to the existing institutions.’ I think most APEC countries are really keen to keep it narrowly defined to basically commerce rather than getting into transfers, which is what we are talking about. Those kinds of transfers can lead to further problems, if you are not careful. I am not saying that there are not going to be some very painful experiences in Indonesia. They are hit by more than just the financial crisis—the drought, the shortages of food and things are making it worse.

Senator COOK—And the political uncertainty.

Prof. Robertson—That too, although I suspect the military will fix that. This issue of adjustment, whether we are talking about Indonesia or whether we are talking about here, is, of course, a key issue, but so far we have not found very many good ways of doing it. A lot of money was spent in the US on so-called trade adjustment mechanisms in the 1960s under Kennedy and then under Johnson, but they were not very effective. They were tried in the UK. People have been trying to get Geordies to move from Newcastle down south to get jobs since the end of the Second World War. Those people stay up there. It is very difficult to get them to move. You offer them a subsidy to travel or some compensation for selling their house, but that does not work. People can get very stubborn about moving. That is part of the adjustment problem.

CHAIR—The questions I was going to ask were hijacked by other questioners. I thank you for your attendance and for the evidence you have tendered to this committee today.

Proceedings suspended from 12.35 p.m. to 1.39 p.m.

[1.39 p.m.]

DRYSDALE, Professor Peter David, Professor of Economics and Executive Director, Australia-Japan Research Centre, Economics Division, Research School of Pacific and Asian Studies, Australian National University, GPO Box 4, Canberra, Australian Capital Territory 0200

GARNAUT, Professor Ross Gregory, Professor of Economics, Australian National University, Canberra, Australian Capital Territory 2600

CHAIR—I welcome Professor Peter Drysdale and Professor Ross Garnaut to this hearing. The committee prefers all evidence to be given in public but should you, at any stage, wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a written submission from Professor Drysdale dated 25 August 1997. Are there any alterations or additions you would like to make to your submission at this stage?

Prof. Drysdale—I have another paper that I presented to the American Economic Association conference meetings in Chicago this January and I would be happy to make that available to committee members, if it is useful.

CHAIR—Yes, we would appreciate that. The committee has already made this submission a public document. I now invite you to make an opening statement and then we will proceed to questions.

Prof. Drysdale—I will begin and Ross may wish to take up particular aspects of some of the more general points which it might be helpful for me to begin with. The submission I made earlier to you, and the paper that I will make available to committee members, focus on some of the implications of the character of APEC for its success and its value to us in managing regional, economic and, I add, political relations. The guiding principle of APEC from its very beginning and, indeed, stretching back in the years leading up to its inception has been the principle of open regionalism. That has informed the way in which the policy approach has evolved within APEC and, I think, extremely valuably.

The important thing, I always feel, to understand about APEC is that, unlike what are sometimes seen to be its counterparts in other parts of the world—the European Union, and earlier as the European Community, in NAFTA and so on—APEC has no supranational authority. There is no supranational agreement and it relies for its strength and effectiveness upon its member economies coming together in a spirit of cooperation and consultation in a way that informs the ordering of their policy priorities and helps to pursue more effectively common policy goals within the region and the projection of those interests beyond the region.

It sounds like a very simple idea, but the observation of that character of APEC is a very important observation because it conditions our judgment of the value of APEC and also leads to a better understanding of what APEC can sensibly do and what it cannot do. Sometimes I feel that there are overexpectations about what APEC can do that we should be wary of accepting at face value. That is not to say that it cannot do a great deal because I believe that it has done a great deal and its achievements are very large.

I will identify a few of those achievements, some of which we might return to in discussion. A huge achievement for APEC has been to provide a process and a forum within which the three Chinese economies have been able to work with the other economies and polities in the region. That was a process set in train back here in Canberra, just after the first Pacific Economic Cooperation Council meeting—it became a council later; it was really then called the Pacific Community Conference—at the initiative of then Prime Minister Fraser and Prime Minister Ohira of Japan.

APEC made progress through its first ministerial level meetings to the leaders meeting in Seattle. The achievement of the leaders meetings in Seattle was a tremendous elevation of focus and policy interest in APEC. It transformed the political influence of the association between the members of APEC through the leaders' consultations.

At a more practical level, in terms of trade policy development, there is no question, in my judgment, that APEC did influence the course of the Uruguay Round of negotiations and the WTO outcome, especially following the objectives laid out for APEC at the Seattle meeting in 1993 and the conclusion of the Uruguay Round in that year. That in itself is a very important achievement of APEC.

APEC subsequently delivered the free trade and investment goals, 2010 and 2020, in Bogor. Then there was the mechanism defined in Osaka—the Osaka action agenda, so-called—whereby, at least in the first instance, these goals were to be put into practice and then the beginnings of the implementation of the individual action plans of member economies was through the Manila summit. At the Manila summit there was some significant movement in support of the international technology agreement through the WTO. You should note that all of these policy achievements have been through the influence of the APEC process via other forums and mechanisms either by individual government action or international organisation action. You will recall that I said at the beginning that that is an important characteristic of the APEC process that we have to keep in mind.

Last year in Vancouver it was a mixed bag. The Vancouver meeting provided a timely opportunity for developing a considered response to the new issue of the financial market instability and crisis in East Asia. APEC could not have been expected to deliver on the beginnings of implementation of solutions to those problems. It is not that kind of vehicle. But what it did do was focus appropriately high level policy attention on that. That evolved through the course of the meetings. It passed the direction for policy development on that front appropriately to finance ministers and play through the relevant international organisations, especially the IMF and the banks.

APEC is now at a new stage following Vancouver with additional membership, such as Russia. I must say I share what I understand to have been the Australian government's position. I think it probably had bipartisan support. The expansion of membership of APEC certainly presented challenges and the outcome of the expansion of membership was not necessarily going to be easy to manage. I am now trying to think through, frankly, the implications of that for the future modalities in APEC.

The expanded membership has some benefits to it, but my own judgment at that time was that the costs outweighed the benefits. The benefits are obviously in the introduction of a major political player in the region. Whether we like it or not, the Russians are into closer association with the other big players in the region—us and the rest of the region. That can have some important political and, ultimately, security benefits to the region as a whole and can potentially introduce, through the dialogues allowed, especially at the leaders level, more political security and stability in the region, so there is a big benefit in that respect.

The real questions arise as to how the new membership will relate to the evolution of the economic policy agendas for APEC and the pursuit of those through various fora, and how Russia, for example, will play its role in the management of crises from which it has either remote or not necessarily helpful interests, like the financial crisis that we have been going through in East Asia. So there are questions there.

There are other questions, of course, about the future agenda for APEC. We should talk in more detail later on—maybe Ross can talk a bit about this—about the success of the open regionalism approach in terms of the trade liberalisation agenda thus far. I think it has been extremely successful; it has been the right formula for the time thus far. But there is a question about whether open regionalism on the trade liberalisation and investment liberalisation front can succeed when the going gets tougher around the highly sensitive issues that APEC will have to confront as liberalisation, as it were, goes deeper—whether it is agriculture in North-East Asia or textiles, clothing and footwear in other economies, like our own. So there is a question there.

We clearly need to have a well thought out strategy about how to progress through to the goals that have been set in Bogor to the end point on that front and make open regionalism—which is, in my view, an essential feature of the APEC process because of the character of the region that we are dealing with, its diversity, the different kinds of economies that are working together in this process—deliver on those goals.

The other question that I raised in the paper that I have already presented to you, and that I go through in this paper when I look at Japan's interests in these issues, is the emergence of what I and others have called reciprocitarianism in Washington trade politics, and where that might lead to in terms of its impact on the cohesion of APEC and the approach that we have successfully developed within APEC. There is the question of whether or not that will, if it gets out of control, tend to fracture the APEC process into the East Asian side, strengthening the idea of an East Asian economic caucus, or whether or not it can be managed within the framework of multilateral systems and negotiations that might get off the ground there, like the one that has been suggested by Sir Leon Brittan in the millennium round, or the APEC round, for that matter, in the early part of next century.

Then there is a question of the impact of the Asian crisis on the APEC commitments. Are we likely to see back-pedalling from the liberalisation goals that are the core of APEC's trade and investment agenda, for example, in consequence of the political forces set in train in East Asia? My brief judgment is that, on balance, we are not; that the nature of the problem and the nature of the solutions that governments have adopted thus far in response to the problem, in conjunction in at least two, possibly three, cases with the help of the critical international agency, the IMF, are going to reinforce the process of liberalisation and reform about which APEC is primarily focused.

That is a general judgment, but there are some particular problems. One of the particular problems is clearly the very extreme difficulties in which Indonesia finds itself—and they are of immense concern and interest to Australia. How they are managed will affect very much Indonesia's continuing force for influence in the whole South-East Asian region for maintaining these longer-term commitments. It is not all certain.

The next and last set of questions I will leave you with is on evolving modalities within APEC. My view is that APEC, its structure and the processes do allow for a very appropriate degree of flexibility in the engagement of its members. They do not have to be all engaged in particular initiatives or responses in using the full value of APEC. To take an example, in the financial crisis case you would not expect the new members down the track to be involved proximately in a financial assistance group or something of that kind working most actively in the resolution of some financial market crisis in the region. But you would nonetheless be able to expect, one hopes, APEC to encourage that kind of initiative. I think we have to think about the modalities, now that we have got a wider membership, that continue to make APEC a focused and effective forum or process through which we in Australia can achieve our national economic and political objectives in the region. That is one dimension of it.

Just to repeat: APEC is not an instrument of policy in the sense of being an instrument of policy action or implementation itself. It has no constitution whereby it can be. It may never be. It certainly will not be for a very long time, given the character of the region. But it has been a very effective theatre for policy development in the cooperative interests of the region and I think it will remain so for a very long period of time. Thank you very much.

CHAIR—Thank you.

Prof. Garnaut—I will just add a few remarks on the trade issues. It is important to see the emergence of APEC and its role in trade liberalisation and facilitation as being part of a longer historical process. Asia-Pacific economic integration began long before APEC. Strategies of outward-looking economic growth in East Asian economies, in western Pacific economies, provided an opportunity for market forces and for businesses in the Asia-Pacific to expand trade and investment links.

Asia-Pacific economic cooperation is distinguished from some other examples of regional integration by the fact that it was led by what was actually happening in the marketplace. The ideas about economic cooperation in the region and the institutions, through which cooperation was promoted and in the end the institution of APEC, followed developments in the market.

By the late 1970s, there was awareness that trade and investment expansion in the Asia-Pacific represented an important historical phenomenon. The exploration of ideas about intergovernmental cooperation to keep it going was really a conservative process. The motive was to encourage and maintain forces that were already well established. That was always the premise of the discussion within the Pacific Economic Cooperation Council that grew out of the first Pacific community seminar that Peter mentioned. Through the 1980s, the growth of ideas about Asia-Pacific economic cooperation proceeded alongside a very rapid expansion of trade and investment in the region. From the mid-1980s, we saw an acceleration of that expansion of trade and investment. Partly it was exchange rate adjustments across the Pacific—the strengthening, first, of the yen and, later, the Korean won and New Taiwan dollar against the United States dollar; the appreciation of the real exchange rate in Hong Kong against the United States dollar, mainly through domestic inflation—and trade liberalisation, a deliberate commitment to more outward-looking economic strategies in a number of developing countries in the region which earlier had not been such big participants in the process, including China from the mid-1980s and Indonesia. These were important steps in liberalisation in a couple of the other South-East Asian economies.

So the formation of APEC followed quite a long period of deepening economic integration and discussion of ideas within the region about how to keep the process going. It was an organic growth out of a pattern of economic development that was already established.

Peter has mentioned the idea of open regionalism. That term was first used at the first Pacific community seminar in Canberra in 1980. It was descriptive of the process of economic integration driven by market forces that was already under way. Later, it came to be defined more precisely as regional economic cooperation to expand trade without discrimination against outsiders. In this respect, APEC's open regionalism was quite different from the North American free trade area or the European Community's customs union. I have traced the development of that thought in some of the papers in my book of papers, *Open regionalism and trade liberalisation,* which was published at the end of 1996.

From the time of the formation of APEC in Canberra in 1989, the intergovernmental search for a modus operandi for official support for trade expansion and liberalisation gathered strength. The idea of open regionalism, the encouragement of trade expansion without discrimination against outsiders, was built into those very early discussions in APEC from 1989 onwards.

The tempo of discussion within APEC of measures to enhance regional trade and investment expansion grew rapidly. At first the prime focus was on what were called trade facilitation measures to reduce impediments to trade expansion outside conventional official trade barriers or protection. Some early discussion focused on some artificial barriers imposed by government other than protection, other than tariffs and quantitative restrictions, but a lot of the discussion was on ways of reducing information barriers and ways of reducing transactions costs between businesses in different parts of the region.

The discussion of trade expansion within APEC took on a new dimension in the couple of years up to the Bogor meeting of APEC in 1994, and then, with the commitment of APEC leaders to goals of free and open trade and investment by 2010 for developed countries and 2020 for developing countries. Because this commitment had grown out of a long Asia-Pacific discussion of trade liberalisation, it was taken by most western Pacific economies to be a commitment within the framework of open regionalism. This meant that the goal was really one of each economy in the region ending up a free trade economy by 2020 or 2010.

There was a little bit of playing around with alternative approaches, a little bit of flirtation with the free trade area idea under article 24 of the GATT. That was never a practical possibility, and it was not much mentioned before the impracticality of it became pretty clear. Under article 24 of the GATT, a conventional free trade area required in every country a schedule for trade liberalisation towards substantial free trade right across the economy within a reasonably short timetable. There was no mechanism for negotiating such schedules, nor was there a political basis for it in economies and political systems as diverse as the Asia-Pacific economies.

If the region had been able to go that way, it would have faced some rather difficult international economic policy questions about whether it was desirable. At that stage it would have meant placing greater barriers on trade relative to trade inside APEC, with a number of important countries on the edge of the region. We would have had to have given thought to relations with India, Russia and Vietnam, especially the effects of trade discrimination in favour of APEC that kept these neighbouring economies out. But, because article 24 free trade was not a practical reality, we did not have to deal with those issues.

Since the Bogor declaration in 1994, what has come of the commitment to free and open trade in the region? There has been considerable movement since that time towards free trade. At the time of the Manila leaders summit at the end of 1996, the PECC released some calculations on the rate of trade liberalisation since the Bogor declaration and the rate of continued liberalisation to which commitments had been made by member governments of APEC. What those calculations showed was that, if you drew a straight line between levels of protection as they existed before the Bogor declaration and the target, 2010 or 2020, most APEC countries were ahead of the target both in what had already happened and in what had been announced to happen by the year 2000. That said, it was surprising to most people.

It was true; but there is another question of whether APEC actually had had any effect on that, or whether the trends only reflected the reality that there was a lot of momentum towards trade liberalisation in the region anyway. And one has to immediately acknowledge that there was a lot of momentum anyway. The process of trade liberalisation that I mentioned played a big role in trade expansion through the 1980s continued through the 1990s. There was quite strong recognition, in a number of highly protected East Asian economies, that trade liberalisation was in the interests of their own development. For that reason, you had a continued announcement of liberalisation packages in Malaysia, in China and elsewhere.

So what role did the Bogor declaration and the APEC commitment play? The Bogor declaration reinforced trends that were already there. The commitments to free trade within APEC were hitting with the spin, and I think that that helped them to be influential. I could take some particular cases where they were probably influential. Of course, we are dealing with complex issues of political economy, and it is not always easy to separate out different contributions to a political decision. The presence of the APEC commitment was always only one of a number of forces operating on a trade liberalisation decision.

In the large developing economies of the region that had very high protection before the Bogor commitments, one can see a number of cases where the APEC commitments probably helped the process of liberalisation. Take China: we had a visitor to the ANU last week, Long Yongtu, who is Vice-Minister of the Ministry of Foreign Trade and Technical Cooperation, and is in charge of Chinese trade negotiations. In response to questions in a public forum, he expressed the opinion that it was not by accident that the Chinese leaders had decided to make the APEC leaders meetings, and the trade ministers meetings surrounding the leaders meetings, the occasion for successive major statements on reductions in protection.

Long Yongtu made the point that, because APEC was a non-confrontational arena, trade liberalisation decisions could be announced there and could be explained to relevant parts of the Chinese government and Chinese community as Chinese contributions to a common effort. It was much easier for them to respond positively in those circumstances than in the more confrontational atmosphere of the bilateral negotiations with the United States, where they would seem to be making concessions if they gave ground—or, as you made the point, even in trade negotiations in a wider forum—although, of course, China is not yet a member of the WTO and so it has not been properly tested in a WTO environment yet. The packages announced by China at the APEC meeting in Osaka and subsequently were very substantial.

In the case of Indonesia, President Suharto was chair of the meeting that made the commitment to free trade by 2010 or 2020. Through the 1990s in Indonesia, there has been a big contest of ideas and vested interests over trade policy: conflicting forces pushing for maintenance of protection in some sectors, as against other forces that recognised the benefit of trade liberalisation for Indonesian development. The President and the people close to him are crucial to the outcome of this contest.

The fact that the President was so closely associated personally with the decisions of 1994 at Bogor was, in my judgment, very important to large tariff reduction and liberalisation packages having been announced in each of the next two years. They were large liberalisation efforts and without that association, we may not have got such a good outcome. We can always point to the protection that remains—and, in Indonesia, there are some terrible flaws in trade policy still—but, while noting the protection that remains, it is sensible for us also to note the very substantial progress that has been made.

An even clearer and more dramatic case is the Philippines, which has been a highly protected country. Leaders of economic policy, technocrats, in the Philippines for a long time have recognised the drag that high protection has placed on economic development. But the political system of the Philippines always managed to block attempts at major liberalisation: vested interests, being very important in the policy making process, were always able to block radical liberalisation. All of those blockages seem to have been cleared during 1996, the year in which President Ramos hosted the APEC leaders meeting in Manila.

The Philippines Congress supported the administration proposal for a radical reduction in protection by the year 2005, down to maximum tariffs of five per cent. That mirrored commitments that the Philippines had already made in a much narrower context, the ASEAN free trade area context. Like the ASEAN commitment, the new liberalisation package did not extend to all agricultural products, but it was comprehensive across manufacturing. Close advisers to the Philippines President, in preparation for the APEC summit and the associated trade policy issues, have advised us that in their opinions the modus operandi of APEC trade liberalisation was important to unblocking the political process.

Whenever the administration went to the Congress with a proposal for trade liberalisation that seemed to be a requirement dragged from bilateral negotiations with one of the major Western countries, or even a requirement out of WTO negotiations, there were elements of nationalist response which reinforced the vested interests. The vested interests could hide behind a nationalist response, and had been able to block progress. But President Ramos skilfully used the fact that the Philippines was hosting the 1996 summit and had to provide a real lead, but that it was doing this for its own development and for the development of a region important to the Philippines, and that others would be making contributions. He used these arguments to get this far-reaching liberalisation measure through the Philippines parliament.

Closer to home, you will recall that Australia's commitment to the APEC goals by 2010 played a role in the discussion of reductions in protection for the car industry and the tariff industry. It is well known that, at the time of each of those announcements, I expressed some disappointment that the decisions had not provided for faster liberalisation. Nevertheless, there were elements of liberalisation in those decisions. The vested interests that were supporting maintenance of protection acknowledged that their support for maintenance of protection had, in the end, to be consistent with the APEC commitments to free trade by 2010.

If you look at the industry submissions to the Industry Commission you will see evidence of that. That played a role in the decision making. It meant that limits were placed on the influence of vested interests on the outcome of those important policy processes. As in the other South-East Asian cases, one cannot be precise about the exact contribution of the APEC commitments, but the commitments were part of the debate, placed some constraints on the debate and, I think, were helpful in at least continuing to move policy in a liberalising direction.

The free trade commitments have also given some additional focus to the search at an APEC wide level for mechanisms for accelerating trade liberalisation. That search has come up with a number of approaches that have borne some fruit, the full fruits of which will be tested over time. One approach has been, following the Osaka meeting of APEC, for each country to place liberalising commitments on the table, with an opportunity for peer pressure to be applied to countries which have not gone so far. That process has been described as concerted unilateral liberalisation—unilateral in the sense that each country is in control of what it puts on the table and concerted in the sense that each country is putting things on the table at the same time and there is an opportunity for comparison and peer pressure. I think it is a promising approach. Over time we will get a better feel for how influential it is.

Out of this search for new ways of taking trade liberalisation further in an APEC framework has been the focus over the last couple of years on sectoral liberalisation. Sectoral liberalisation—that is, agreements amongst the APEC governments to liberalise trade or introduce free trade in individual sectors—is possible within the framework of open regionalism, in a way in which it would not be possible if you were following an approach of discriminatory free trade, maintaining barriers against outsiders. It would be illegal under GATT or now the WTO to pick a sector and to liberalise trade within that sector, within APEC, but maintain barriers to outsiders. So a free trade area approach, sector by sector, would not be legal under the WTO, but, of course, there is no WTO impediment to picking particular sectors for liberalisation on a non-discriminatory basis.

At the time of the Philippine summit there was important discussion at the APEC meetings of liberalisation in telecommunications and information technology. The understandings that were reached there were important to subsequent commitments to global free trade in those sectors within the WTO. The APEC commitments were one of the building blocks to what became a very important global commitment in the year following the Manila summit.

More recently, a systematic attempt has been made to identify further sectors for liberalisation in a similar way. Some could lead just to APEC liberalisation—and that is consistent with WTO rules, given the way APEC goes about trade liberalisation. Others, like information technology and telecommunications, could be the base for wider discussions within the WTO.

Peter has mentioned the pressure that the East Asian economic crisis can potentially place on the processes of trade liberalisation in the Asia-Pacific. One has to acknowledge that the financial crisis that has become an economic crisis in some countries, that began in Thailand in the middle of last year and spread to other economies, is a major setback to economic development within the region. It is a major episode in the economic history of the region. A very big economic event like that eventually has important effects on economic ideas. In the end, the most important influence of the current crisis on APEC development will be through the effect that the crisis has on ideas about economic and trade policy.

At this stage, there is a contest of ideas going on. In the first instance, the government response to crisis has been mostly helpful to liberalisation, which is interesting. It is not always and automatically the case that an economic crisis like this is associated with liberalising steps. The fact that the IMF, backed by a number of developed countries, has been so influential in the policy response in Korea, Thailand and Indonesia, in particular, has reinforced that early liberalising response.

One has to acknowledge that, at the same time, there are some people through the region saying that an excess of openness, especially on the capital account, as distinct from the trade account, has made a contribution to the crisis. My own view on that is that if you have an open capital account without having done the work on establishing a competitive and effective domestic financial system and banking system, you do take risks.

A number of economies in the region, including Singapore, Hong Kong and Australia, show that if you do have a well administered and competitive institutionally strong banking and financial system, then you can manage openness on the capital account and get the benefits of it while minimising the disadvantages. This contest of ideas is going on, and whether the initial impetus of the crisis to liberalisation is maintained is a question which will be answered over the next couple of years.

One influence on the outcome will be how successful the IMF type programs are. In the countries in which they are successful, success will tend to reinforce that approach. There are reasons to see promise in what is happening in Thailand and Korea, although problems are still very large, as Peter has mentioned. The Indonesian case at this stage is problematical.

One set of developments out of the crisis that will affect the atmosphere in which APEC develops over the next few years will be the effects of the macro-economic developments in East Asia on trans-Pacific trade imbalances and current account imbalances. A number of the East Asian economies have become vastly more competitive as a result of the exchange rate depreciations. At the same time, domestic demand has slumped because of the direct and indirect effects of the financial crisis. The effects on wealth of the collapse in stock market values and real estate values have reduced middle-class consumption dramatically. Real incomes are squeezed by the falls in exchange rates, and that has reduced consumption. Investment has been reduced by the damage that has been done to corporate balance sheets by the currency depreciations and the problems in the banking system. Domestic demand will be well down in most East Asian economies and down furthest in the troubled economies at the same time as the economies become much more internationally competitive as a result of the currency depreciations.

Almost the opposite things are happening in North America, especially the United States. A very strong currency has been further strengthened by capital from East Asia—South-East Asia in particular—seeking a safe haven, so holding the dollar higher at a time of continued strong demand in the United States economy. So they are almost opposite developments on the two sides of the Pacific.

The inevitable outcome of that divergence in macro-economic factors will be the emergence of large current account and trade surpluses in the western Pacific and very large deficits in the eastern Pacific, especially the United States. That will come on top of some pretty big imbalances anyway, especially in relation to Japan and China which have generated quite a lot of tension. So one of the problems of the next couple of years—and mark this down as the big trade policy problem of 1999—will be tension between the United States and East Asian countries about these trade imbalances. That will invariably play on feelings in the US polity that East Asian economies are engaged in unfair trade practices of various kinds.

It is very important to continued Asia-Pacific trade expansion that we are able to maintain a cooperative framework for discussing these things across the Pacific. The APEC commitments will be placed under stress in the United States and in the western Pacific for almost opposite reasons, but the framework that they provide becomes more important than ever for avoiding very damaging outcomes. If you like, in questions, I can go into some more of the details of that.

Senator COOK—I have got some questions for you on that.

Prof. Garnaut—I have just one last point, looking beyond this very difficult and turbulent period we are currently going through. Whether the APEC goals of free and open trade by 2010 and 2020 continue to mean anything will depend, above all, on whether the western Pacific economies are able to maintain momentum in trade liberalisation through this period. I have mentioned that so far so good, but we have got to wait and see what it looks like when the battles of ideas have gone further.

If there is continued progress in the western Pacific, then a healthy APEC can be an important vehicle for bringing that progress to account in the United States political discussion of trade policy. The US polity, the US Congress, has a feeling that there is only one fair and free trade country in the world and that everyone else is a free-rider on them.

The reality of western Pacific trade liberalisation has not made much of a dent in the discussion of trade policy in the United States. It is very important that the reality is strengthened by trade liberalisation in East Asia and the western Pacific over the next few years, and that the annual leaders meetings—and the press attention associated with that—and the many other meetings within APEC are used to educate the US polity about the realities on this side of the Pacific.

If those processes are successful and the US Congress and polity does become engaged in the trade liberalisation which is going on in the western Pacific, then for the first time APEC will start to become a factor in US trade policy. It has not been yet.

The US polity is strongly committed to the concept of reciprocity in trade policy matters. That is a different approach from the approach that is common in the western Pacific and has become the basis of APEC. That does not matter very much for as long as the US remains a relatively open economy—relative to most other APEC economies which have got a fair bit of catching up to do.

As liberalisation proceeds further in the western Pacific, it is important that the US becomes part of the APEC trade liberalisation. It would require a very big change in US approaches to trade policy for some more specific sense of reciprocity not to become important. But traditional reciprocity within a free trade area will remain unrealistic and impractical in the Asia-Pacific context.

How I see all of that coming together is: at that time, as the US becomes more specifically engaged, then the APEC role can become larger in introducing APEC commitments to free and open trade into the global arena through the WTO.

CHAIR—Thank you very much. It has been an excellent briefing that you have given to us. I now pass it across to Senator Cook to open questions.

Senator COOK—Thank you. I am a bit worried I might not have enough time to ask all my questions. I have got some questions on the Asian currency crisis and what that means to the Bogor goals. Does that mean APEC will change in its character when issues of social and community unrest and concern start to arise? There are some questions in here too about what the ascendancy of Habibie in Indonesia and the loss of a figurehead like Ramos in the Philippines mean to this regional thing. There are a group of questions in there; I foreshadow them now.

I have questions on whether the agenda to weaken APEC succeeded with the membership enlargement, principally from Russia's membership—not so much Vietnam and Peru, although they are important in the number of extra faces—on the one hand and the emergence of ASEM, which is an EAEC with European visitors and no Australians, on the other. Does Russia's presence change the focus of interests from trade to a much more diffuse set of issues in which the vital interests that we played a pioneering role in setting up are lost? As I say, there is a group of questions around that concept.

What I wanted to start with were some of the broader trade challenges that face Australia putting the whole APEC thing into some context. On the list of trade challenges, one question is: do you have any comments on the weakening, or otherwise, of political will in Australia for trade liberalisation?

Secondly, is agricultural trade liberalisation stranded now, given that 1999 is the year for agricultural trade liberalisation as part of a built-in agenda of the Uruguay Round? It seems—at least in the government's statement on Wednesday—that that is to be pushed into a millennium round, which is not yet a fact. Are we going to lose our focus on agricultural trade liberalisation, an area which Australia has played a key role in putting on the global map? It is a worry I have.

I would like to ask you for a comment on the Multilateral Agreement on Investment. That seems at one end to be the new world conspiracy, if you listen to the Hanson lunatic fringe. At another level, though, I think there is a real case to be made about the secrecy that seems to surround this and the worry that that generates as to what loss of national sovereignty an agreement such as that will cause.

But the first question on my list is about 'reciprocitarianism' which you mentioned in one of your concluding remarks about the surpluses on the western Pacific and the impact that has on the eastern Pacific.

Looking at what is sitting out there directly in front of us as the next big global trade issue in terms of power confrontation, I think that this is it. It holds many serious problems for Australia. In 1985 we saw this in microcosm when the United States confronted Japan over autos, at that point the last of a series of other lead-up confrontations. We saw Mickey Kantor returning to Washington with a piece of paper which he said was victory, which no-one really believed, and Hashimoto coming away from that meeting claiming quietly in a Japanese way that he had conceded nothing and then, because of corporate approval and other things, becoming Prime Minister. That was made MFN. Looking at the outcome since then, it seems that the supply of Japanese auto parts by Japanese manufacturers to their domestic automotive industry remained about the same level, the supply of American auto parts increased and the supply of Australian auto parts to that market went down.

The question that I would like you to comment on if you would not mind, is: what are the problems for Australia in the playing out of this reciprocitarianism, or what I think is a looming confrontation between the United States, Japan and China over their trade surpluses? How does Australia handle itself in that situation? You could argue—I think reasonably—that we were third-party victims of the clash of the superpowers in auto. If this is going to occur now across a wider schedule, do we get squeezed out and, if that is the threat, what defensive mechanisms should we be thinking about and putting into play now?

Prof. Garnaut—Peter has done some particular work on the auto question, so I will get him to follow up on that detail. I will cover some general points first. There is danger for Australia in the re-emergence of very large trans-Pacific imbalances. There is a danger that power and not rules will come to dominate the determination of trade shares. It is a time when medium sized economic powers like Australia need rules and principles. We need the WTO to hold together, and we need to be able to go to the WTO to use the dispute processes if an outcome of confrontation and then agreement between western Pacific economies and the United States results in discriminatory arrangements. It is a time when we need more than ever the regional as well as the multilateral cooperative framework.

You mentioned particularly Japan and China. The Chinese trade and payments imbalance bilaterally with the United States is currently large. The fact that China and Hong Kong alone of the East Asian economies are holding their exchange rates high will mean that at least that factor will not get worse in China's case. From economic analysis one would expect there to be some diminution in Chinese surpluses over time as the other East Asians become more competitive. Nothing that has happened recently in East Asia will make the problem worse between China and the United States. In fact, the way China has chosen to manage things may mean that you get a more diffuse pattern of tension, or imbalances, and that subsequently some easing of tension in Sino-American relations may result.

One can expect a very strong expansion of Korean export trade—it has already begun. One can expect that to become a big issue in the United States. One can expect the weak yen of the last year or so, together with the weak Japanese economy, to expand the Japanese bilateral surplus with the United States. There is a diffuse pattern of tension, with danger for Australia in each of those bilateral relations, but maybe a little bit of pressure off the Chinese relationship. For the autos, in particular, I will hand over to Peter.

Prof. Drysdale—I think you were right. I did some earlier work, as you may know, on the impact of the contest between Japan and the United States over the auto access issue. It was fairly clear that the initial impact was to reduce our share of the Japanese market. The prognosis of the problem is a correct one. I think we did have, if you like, historically and accidentally, a favoured position in the Japanese auto parts market because of the history of investment here. It was inevitable that over time some pressure in terms of market share would be brought to bear on that. Nonetheless, there were particular pressures around that negotiation. It did impact upon us. I think there is little doubt about that. It is a general problem.

Senator COOK—Can I just interrupt you to say this? Looking at the exchange rate variations over the last 12 months—I think these figures are not dead accurate, because I cannot recall precisely the change, but they are in the ballpark—the yen went down against the US dollar about 12.3 or 12.6 per cent or something. The Australian dollar went down against the yen about six or seven per cent. I would have thought, therefore, where competition is on price into the Japanese market, Australians would beat Americans to winning a greater share of that market.

I rang last week around the auto parts producers. They are saying it is a very difficult market for them; they are not able to make headway. I wonder whether, in anticipation of these sorts of arguments, the Japanese market is already shutting Australia out despite cheaper products in order to prepare themselves for some give when the boom is lowered on them.

Prof. Drysdale—Those pressures are undoubtedly there so it does raise the bigger question. I want to add another element of the scenario that I think we need to keep in mind and that is that it is not only the United States that is going to be in this situation vis-a-vis East Asia; for more general reasons, so is Europe. Especially with the formation of the monetary union and the management of that through tight monetary policy, there is going to be a strong Euro by and large and this will put pressures on the European polity to withdraw or retreat from open trade policies. When you put that all together, I think it adds to the particular interest and importance of the Europe-East Asian dialogues and our participation in them alongside our playing an active and forward role in APEC in the resolution of the US-East Asia problem.

Our interests in that are clearly, as Ross has said, to keep focused on the big game of protecting our interests in a multilateral system and to be active in the prosecution of a new round down the track, which will help to constrain those pressures, and not to be sidelined in that process. The Europeans have begun to talk to the Americans on an Atlantic initiative again. It is not clear how that will evolve. It could evolve in a way that is not necessarily advantageous to us. Our interest is to press through our role in APEC and through our positioning to develop a role in the ASEM dialogues and to develop those broader interests in those frameworks and as we can bilaterally. On the ASEM process, that question has come up now—

Senator COOK—Just before you do, one of the subquestions, I suppose, about all this is—given Ross's answers, with which I agree, about the need to strengthen the multilateral organisations and the rules so that these sorts of power plays are played out with a set of binding global rules in which the lesser players like us can have an equal influence, or some potentiality for that influence—

Prof. Drysdale—Some protection.

Senator COOK—Some protection—I think that is a better explanation. Does this provide a basis for saying that we ought to get China into the WTO as soon as possible so that the issues that are still outstanding can be put into some box to be dealt with within the WTO setting? With regard to its own internal agenda of economic reform that it will be endorsing next month at the People's National Congress, and the need for an external set of rules in order to help drive that domestic reform process—say, a way of managing the social dislocation and rising unemployment, and things like that in China—for that reason, I think it ought to be in, frankly. But in addition, for this reason, too: here we have China being central to what is a significant power play in trade.

Prof. Drysdale—My answer to that is, unequivocally, yes. I do believe that we, as a country, should be pressing that interest in our bilateral dealings on the accession negotiations with China much more actively than we have been able to do for a variety of reasons in the past. I do believe that we ought to be linking that diplomacy to these broader issues, including the issue of participation in ASEM, because in recent times it is not only Prime Minister Mahathir that has limited our play there, as you well know. I think that it is absolutely correct to say that China's participation in the WTO as soon as possible will make a lot of these issues more manageable.

Prof. Garnaut—I strongly agree with that. I would only add that we need to recognise that our interest in China joining the WTO is much stronger than the United States, or the European Union interest. A great power can look after itself in bilateral contests. We need a multilateral framework of rules in a way that the United States and the European Union do not need them and do not rely on them. For those reasons we should not expect our own interest in the details of Chinese accession to be coincidental with those of either the United States or the European Union.

Senator COOK—This is a bit trite, but do you have a comment on the MAI, the Multilateral Agreement on Investment?

Prof. Garnaut—Not a comment profound enough to be worth presenting to you.

Senator COOK—Let me offer you a free kick. Do you have a comment on whether you perceive any weakening of political will in Australia about the impetus for trade liberalisation?

Prof. Garnaut—Yes, I do. But it will not be a free kick for any one side. I think that there has been an unfortunate—

Senator COOK—I think you administer your kicks impartially.

Prof. Garnaut—I think that there has been a weakening of political will through the 1990s. One can trace it back to the depths of recession and the politics of the Wills by-election where, for the first time, what had been a leadership consensus on trade liberalisation in Australia was broken. That was carried through into the 1993 election. I think that that breaking of a leadership consensus on the advantages to Australia of continued trade liberalisation has made it much more difficult for governments to take trade liberalisation forward. To answer the question straightforwardly, I think that the backsliding of the Labor Party leadership on these issues has not been in Australia’s national interest. It has made it harder for the government to move forward.

In the community as a whole, there is wariness about continued trade liberalisation. One has to say that there always was. But, alongside that wariness, there is now greater recognition of the advantages to Australia of deep integration into the international economy as a result of the huge export expansion especially in manufactured goods and services that has accompanied trade liberalisation since the middle of the 1980s. That is a big success story for Australia.

If you go back to the first half of the 1980s and before that, Australians tended to be rather pessimistic about their prospects of succeeding in exports outside the traditional commodities. The actual experience in the period of trade liberalisation since the mid-1980s has been one of very strong export growth of both manufactures and services. We now have quite large industries in manufacturing and services that rely on export. There is an appreciation, at least in parts of the business community—but it extends beyond that—that there is a linkage between the general opening up and the success in exports. So there is some ballast against that general weakening of political will.

My own judgment is that, because of the recognition of the pluses, as well as the minuses, of liberalisation and recognition of the export success since the mid-1980s, our government does have an opportunity in Australia to make the case to the community for pressing ahead with liberalisation. You will not be surprised to hear that it is strongly in Australia's interests that a government does.

Senator COOK—How would you make the case?

Prof. Garnaut—I would put a lot of emphasis on the export success of Australian industry, especially non-traditional export industries, that has gone along with trade liberalisation. The links are indirect, but they are real. What was commonly anticipated before trade liberalisation began—that we would see a contraction of our highly protected industry and no expansion of manufacturing and services—has not happened. Now it is not just economic theory that says you will have a balancing effect on exports, because it is there in practice. I would make my first line of argument a focus on the extent of that success and what that has meant in terms of economic growth and employment growth. The reality clearly favours what has happened under the open economy and we need more attention on those realities.

Senator COOK—Are there any studies of Australia that you can point to that demonstrate this? Take jobs, for example. That is the first line of this argument with the protection of employees as its defence. You are arguing that there are more jobs created by openness. What is the net balance? Are there any studies that show how this has worked its way through?

Prof. Garnaut—There are studies using the general equilibrium models that show that, in circumstances where real wages do not change, there is a net advantage from liberalisation. There are simpler studies which are easier to explain that simply look at job growth in the export industries and line that up against job contraction in industries in which protection has been lowered. The case is most easily made if you focus, first of all, on the tourist industry where the internationalisation of the Australian economy and the much closer links with Asia-Pacific since the mid-1980s have been accompanied by a huge expansion of the tourism industry, and of employment in that industry. The Industry Commission is looking at some of these issues right now.

Prof. Drysdale—I undertook a study of Australian export performance in manufactured goods in the region and more generally—about a year or so—that looked at the link between the impact of reform and liberalisation by sector upon export performance and productivity performance. I did not directly link that back to employment, but it is not a difficult thing to do. It shows unequivocally that the industries that do best are the ones that have undertaken much more reform.

Senator COOK—Coming to this question of the agricultural round, that was a key point of getting agriculture into the Uruguay Round and making some important although, in the wide sweep, somewhat still modest gains in opening up the agricultural market but positioning agriculture for a continuing reform program. Breaking through in Japan, I thought, was the high point of that part of the agenda. It was built in to be focused on in 1999—next year. Now people are talking about the millennium round, and it seems to be stranded between whether you would incorporate it in that or do it next year. If you tried to do it next year, would there be any justification for a millennium round? This is a front and centre major issue for Australia. Do you have any comment on how it has been positioned, what our interests are here, and what we can do to make sure it remains on the agenda and is able to be addressed as positively as possible?

Prof. Garnaut—One comment I would make is that, in agricultural trade, we have always relied on building coalitions of like-minded countries. That has been effective—both the Cairns Group and a different sort of coalition with the United States—on these matters. We have to keep that going. Realistically, whether agriculture slides off the agenda depends a fair bit on whether the United States lets it slide off. In our bilateral relations there and in our relations with another set of countries through the Cairns Group, we should be pressing the importance of not letting go of any mechanisms we have for keeping the discussion of the progress of trade liberalisation in agriculture going. One of the mechanisms we do have is the built-in agenda, so I will be disappointed if that is weakened.

Senator COOK—On that very point, this year is an election year for the United States. We saw the inability to get fast track through last year. Fast track is now relegated in the legislative program and it is not going to be addressed immediately; certainly not before the conference of the Americas that the President was going to next month, which was the main target date by which they wanted it. That, in terms of America’s support, particularly when you are in an election looking for mid-western votes—agricultural state votes—is a hard sign.

Of course, the year 2000 is a presidential election year, where the key issue emerging seems to be whether you have a protectionist Democrat candidate or not. With the primaries beginning in the north-western states and the agricultural states shortly after Super Tuesday, most of the textile industry states are covered by it. So you have what does not look like a good prospect for free trade there. And who knows what is going to happen in terms of the Republican candidate, although George Bush Junior looks like he might be emerging from the ruck. God knows what his views are. I do not know. If they are as good as his old man’s, maybe you would be tempted to look at the Republican slate a bit more closely.

You have got all that overshadowing this, and I think they are quite significant things in setting the temper for an approach for a global round. It may well be that a global round would not get US support in anything like the sort of way that you would need it to realise any strong outcomes.

Prof. Garnaut—I will just make two comments on that review of the American political scene. There has been some improvement in the American mood on agricultural protection over the last couple of years with the successful reforms of the farm bill. This has led to a more competitive domestic agricultural environment that part of the farming community has recognised as being helpful. It is not as solidly a protectionist mood on agriculture as it was for a while.

At the same time, much of US agriculture is export oriented. The mid-western constituencies have always had an interest in market access and European subsidies as well as an interest in their own assistance. It has usually been possible to make the case that there are net advantages to US agricultural interests from some kinds of wider agricultural liberalisation. The US agricultural export interests are particularly strong in East Asia, and before the crisis were growing very rapidly in East Asia. Progress in these other things we have been discussing, such as trade liberalisation in East Asia, can play back favourably into the US political mood.

Senator COOK—You would have to say that recently the Prime Minister—and I think I actually beat him to the punch, but leave that aside—complained about the use of US trade credits for the US to steal market share off Australia and other countries as a consequence of the Asian currency crisis.

Prof. Garnaut—That is actually a harder one than it usually is. When there is a need for the extension of trade credit to some of the troubled economies, it would be much better if that was being provided by groups of countries so that it does not contain a distorting influence. It is in our interest to see whether we can get some understanding on trade credit provided on that broader basis.

Prof. Drysdale—I think the outlook for movement on the agricultural trade side will also be much influenced by progress with China’s accession. In this context, as well as in others, that is very important.

Senator COOK—At the risk of hogging this entirely, can I just go to the question of what I have called the agenda to weaken APEC by enlarging its membership, causing it to lose its focus, introducing by virtue of the character of some of the new members new issues at the same time as ASEAN seems to at least be strengthening—or at least a door in ASEAN against Australia is even more tightly locked than it was earlier. What does this mean? Does it mean that the vehicle we helped create is being run into the sand and we ought to take some corrective action and find a new vehicle or try to improve this one? If we have to improve this one, how do we do it?

Prof. Drysdale—There are these dangers, as I said at the beginning. I think the presence of Russia, in particular, does tend to defuse the objectives of APEC. As I said, it is not all negative. I think one has to recall always that APEC, whilst it is an important vehicle to pursue our trade and economic diplomatic objectives, of its character is importantly, in that respect and in other respects, a hugely important political instrument.

In thinking about the political character of the region in the post-war period, Russia is there. It will be a more important presence in the longer term than it has been in the immediate Cold War period. There is a sense in which inexorably we have to deal with that presence in this political context. However, it would potentially divert our attention from the more immediate objectives of trade and investment liberalisation and the pursuit of our interests in economic cooperation in the region if it came to dominate the agenda.

I do not think that is necessarily so, but it will, on our part in particular I think, require more active play than we have had in the last couple of years to define new modalities in APEC. I think we have been particularly creative as a country, and helpful in the whole process of establishing APEC and making something work, where it looked that it was very difficult to make progress. Indeed, as I said at the beginning, there has been a great deal of success there.

I do not think the task of shaping APEC in a way that can accommodate the presence of the new members, and the political value that their presence brings to the organisation, at least in some important dimensions, and keeping an active agenda of economic cooperation proceeding, is impossible. Ultimately, we have to face the question in the global context of the management of the European, East Asian, North American and Russian set of economic relations if the whole experiment in Russia is going to succeed. Russia's membership of APEC clearly seemed like at least a toe in the water on that front so far as the Americans and the Japanese were concerned.

Senator COOK—Is there a case for bringing in India then closing the door to new members in APEC?

Prof. Drysdale—Ross may have something to say about that because he has taken a particular interest in India in recent years. I would say that the present moratorium is appropriate and it may well at some time be appropriate to include India and South Asian economies in APEC, but not for some time. There are still questions there. The most important aspect of APEC that facilitates India's objectives, and the communication of that effectively through bilateral and other dialogues to India and South Asia is important, is the open characteristic of APEC and the way in which it facilitates India's and South Asia's benefiting from the continuing process of liberalisation in APEC.

Prof. Garnaut—I would have thought that India's claims were stronger than Russia's claims. I have thought that for some time. While holding that thought, I did not think that it was crucial for India to be a member, so long as APEC members, and APEC itself, were cognisant of the huge importance of the success of the reforms in India that got under way in the 1990s.

Because trade liberalisation within APEC is within the framework of open regionalism it does not cut India out. India could do with a lot of liberalisation within that framework itself. I think it might be helpful to the political economy of reform in India if particular APEC countries—and why not Australia—engaged in rather active discussion with India of the advantages of parallel liberalisation and, at the same time, deliberately built business links to take advantage of the new opportunities that would emerge from that process.

Open regionalism in South Asia alongside liberalisation within an open regional context in APEC would be a very productive basis for regional trade expansion in India, at the same time as opportunities were expanded for links with the Asia-Pacific region. I would like to see us active in discussions with India in those ways rather than talking of further dilution of APEC.

Senator COOK—God knows what the new Indian government is going to look like.

Prof. Garnaut—Yes, God probably does.

Senator COOK—A Hindu God. I am not sure whether I should push this beyond reasonable limits but going on for a moment to the currency crisis: there is some concern that nations might want to revisit the Bogor goals and put them back or change them. I do not know if you have got a comment on that. At the time, APEC decided not to take an up-front role so directly in the crisis. In hindsight, is that the smart move?

Prof. Garnaut—Two steps: if I may comment on the trade things and Peter on the financial things because he has been involved in some discussions of those. On the trade issues, as I mentioned, the first policy response to crisis has been to accelerate liberalisation in some of the troubled economies. That last IMF package in Indonesia, which was agreed in January, embraces radical liberalisation in some of the hardest protected areas of the Indonesian economy: steel, petrochemicals, agriculture; it wipes out quantitative restrictions across agriculture—in fact, it is only cars that it has left with many of the old monopolies in place.

CHAIR—Does that of itself, though, render Bogor redundant, and make APEC therefore look like: 'Why are we here? A nice happy chat.'

Prof. Garnaut—As I said before, at an earlier stage the Bogor commitments were important in reinforcing tendencies to liberalisation in Indonesia. Whether this IMF program sticks is going to depend on the Indonesian political economy and that is complicated. There is a strong resistance to these measures. Peter earlier made reference to the certain accession of Habibie to greater influence and possible accession to higher office. That elevates what in the past have been interests that have resisted trade liberalisation in some sectors. In this contest of ideas that will determine whether the IMF program sticks in the long term, the Bogor ideas and the commitments at Bogor remain significant.

I think that President Suharto remains a key figure. He is a serious political leader who historically has always taken his commitments seriously. The fact that he led the region to those commitments will not be irrelevant to Indonesian policy making over the next few years. Beyond President Suharto and people close to him, others in the Indonesian political system who see the advantages for Indonesia of continuing trade liberalisation can use the Bogor commitments and Indonesia's role in that as part of their argument. I think it remains helpful. In my earlier presentation, I was careful not to say that APEC is the cause of the liberalisation that has gone on. It is one of the influences and it will continue to be a helpful influence.

Prof. Drysdale—On that front, I endorse what Ross has said entirely. I think the impact of the crisis has not rendered the APEC goals irrelevant. I think the APEC goals will be quite important in seeing these economies through the crisis and, of course, to some extent they are reinforced by the responses to the crisis.

Particular risks do arise in Indonesia and they are very big risks. I do not think we should underestimate the nature of the political contest, internally and between Indonesia and the rest of the world, that is going on there. Our interest is in being an active participant—obviously, not a decisive one—in monitoring, communicating, and assisting the process whereby these things will be resolved in Indonesia. There is no question in my mind that, as

Ross says, the APEC goals are a positive factor in that, but there are big problems alongside all that, the outcomes of which are still very difficult to predict.

On the question of APEC's playing a more up-front role in the resolution of the crisis I was, as Ross said, involved last year in discussions that urged upon the leaders meeting the elevation of this interest in the APEC priorities in Vancouver. There was a positive response to that but in so urging the APEC leaders, certainly I, and I am sure my associates and colleagues from around the region, had no view that APEC could be the primary instrument in delivering the policy response and should not have been; it was the wrong vehicle. It was the right vehicle to focus attention and to direct policy energies through the IMF, and through the G7 and other dealings in the region, in response to the crisis.

But APEC should not be expected to do everything. APEC is a tremendously important pressure valve for directing policy energies in a way that can be productive of regional interests or supportive of regional interests. This is one area in which that is particularly so. Down the track—and I think we have got a lot more thinking to do about how APEC should relate to the management of that sort of problem—the week after next, I have been invited by the Ministry of Finance in Japan and the Asian Development Bank, who are bringing together a group of private professionals that are from all the APEC members, to address this particular question. That will provide an input into Japanese thinking about the approach to the finance ministers meeting down the track. I will be able to answer that question better after we have had that discussion.

Senator COOK—I have not run out of questions, but I think I have run out of time. My flight to Perth for the weekend is now in jeopardy. Thanks very much.

Senator EGGLESTON—Thank you. It was very interesting.

CHAIR—I think we could have gone on for a substantial period of time. Most of the questions that I wanted to ask have been covered except for one, if you could address it briefly. I think you have touched on it: the issue that the perception with trade liberalisation is that there are winners and there are losers, but the losers are the ones that tend to get the focus more.

It seems to me, from the report of earlier witnesses from ACFOA who were telling us of the response they get within the NGO group, that they are almost isolated, the other NGOs being opposed to the trade liberalisation concept and so on. Is there a case that can be made for better management by government of trade liberalisation to compensate the losers, whether it be through training programs or some sort of adjustment process, to make the transition a smoother thing internally, if the benefits are there that are claimed to be there, and thereby make liberalisation a reality?

Prof. Garnaut—One can make that case. I think we need to bear in mind that most of the liberalisation in Australia has been done. Most of the adjustment has already occurred.

CHAIR—Yes, I accept that.

Prof. Garnaut—And while it was going along fastest, we had reasonably strong employment growth. Obviously, liberalisation is easier when you do have strong employment growth. Through the 1980s and up until late in 1990, there was continued strong employment growth that provided a good environment for adjustment.

The politics of trade liberalisation changed in recession. The best compensation for the effects of trade liberalisation on the losers is full employment. I am on record elsewhere as saying that for a whole lot of reasons including this one, full employment should be a much higher priority for Australia. There is, unfortunately, a very strong tendency for periods of high unemployment to be associated with growing community disquiet about trade liberalisation, as well as economic reform more generally.

So, the first thing to do is full employment. What about going further than that to specific sectoral programs? When we were getting rid of the heights of our protection when it was much higher in the 1980s we did make some use of those programs. There was a time when we took off steel quotas in the early 1980s and there were regional programs in Whyalla, Port Kembla and Newcastle. There were other programs in other industries. I felt that those programs were helpful at the margins. It is always very difficult to design them so the benefits go to the people who should really get them.

But my own feeling is that we have already gone most of the way in removing protection. We are now going more slowly in reducing protection, so that the time for such special measures is probably behind us.

CHAIR—It is not just people in employment because we had the case cited earlier in the agricultural area where the orange farmers in certain areas were screaming, yet we are exporting navels into California, the home of navel oranges. It is very hard to tell the farmer who is trying to sell his cash crop here that this trade liberalisation will be good for him, there are benefits there for him, when he is facing being closed down by the bank. It is not just purely in terms of employees, it may well be in terms of businesses and sectors such as the agricultural sector and other sectors which are yet to be addressed.

Prof. Garnaut—Our Minister for Trade often makes the point to the farming community that if there is any part of the Australian community that should be able to see its interest in liberal trade, it is the farm community. If every country in the world went protectionist on agriculture, we would have awfully full bellies.

CHAIR—Yes, I accept that, but the problem is that people do not understand this whole agenda.

Prof. Drysdale—The important interest in government initiative—and I do believe there is a role for positive government response to the challenges of operating in an international and very competitive market in which there are inevitably going to be adjustments from time to time—is to ensure that that policy is not directed to entrenching specific interests where they happen to be established in that market but, as you suggested in your introductory remark to the question, to ensure that government programs are directed geographically and in terms of where the sectoral pinch is in a way that encourages the movement of labour and other resources into new areas of activity through stress on training, education and those things which will facilitate adjustment to more competitive activities, not those things that will entrench resources in inefficient activities that just trap people in low income employment.

So there is a role here, and I frankly think Australian governments have not been quite as active as they might have been in response to some of these pressures. They have tended to run behind the ball in recent times and therefore helped to lose the debate a bit on the benefits of trade liberalisation.

Prof. Garnaut—I strongly agree with that, especially in relation to provincial and rural areas of Australia.

Prof. Drysdale—You think of the Newcastle problem, and so on. It has been a major loss of ground, really, in terms of the debate.

CHAIR—Thank you. That has been excellent. As it is after 3.30, and I know the pressure on certain people to get out of this town at this hour of the week, I do thank you very much for the evidence that you have presented to us this afternoon. It has undoubtedly helped us a great deal in our consideration of the task before us.

Prof. Drysdale—Can I say what a personal and particular pleasure it is for me to come back and talk to this committee. Those of you who have read the history of this committee will perhaps know that the very first hearings of it were held on Japan in the early 1970s, and I presented to those hearings. This committee had a very important role in that context, being the first forum in which the whole question of economic cooperation mechanisms in Asia and the Pacific was discussed and taken seriously, so it is a great pleasure to be back here.

Senator COOK—That is coincident on two grounds, Peter, because I was just talking to the Chairman about getting up a reference for this committee to go back and look at Japan again, particularly its economic health, how long its low level of growth might continue and what the implications are for Australia. So we might have to come back.

CHAIR—You might have to come back.

Prof. Drysdale—If I am still alive!

CHAIR—Thank you.

Committee adjourned at 3.32 p.m.