



COMMONWEALTH OF AUSTRALIA

# SENATE

## Official Committee Hansard

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES  
COMMITTEE

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

MONDAY, 30 MARCH 1998

**CANBERRA**

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CANBERRA 1998

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**SENATE**

**MONDAY, 30 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, Chapman, Colston, Faulkner, Harradine, Margetts and Schacht

**Senators attending the hearing:** Senators Cook, Eggleston, Hogg, Lightfoot, Sandy Macdonald and Quirke

Matter referred by the Senate for inquiry into and report on:

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

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

**WITNESSES**

**FAYLE, Ms Pamela Jean, First Assistant Secretary, Market Development Division,  
Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen  
Crescent, Barton, Australian Capital Territory 0221 . . . . . 805**

**POTTS, Mr Michael John, Assistant Secretary, Trade Policy Issues and Industrials  
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**SMITH, Mr Roderick Richard, Director, Regional Trade Liberalisation Section,  
Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen  
Crescent, Barton, Australian Capital Territory 0221 . . . . . 805**

**SPARKES, Mr Philip John, Assistant Secretary, APEC Branch, Department of  
Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent,  
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**FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES  
COMMITTEE**

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

**CANBERRA**

**Committee commenced at 9.55 a.m.**

**FAYLE, Ms Pamela Jean, First Assistant Secretary, Market Development Division, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221**

**POTTS, Mr Michael John, Assistant Secretary, Trade Policy Issues and Industrials Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221**

**SMITH, Mr Roderick Richard, Director, Regional Trade Liberalisation Section, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221**

**SPARKES, Mr Philip John, Assistant Secretary, APEC Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221**

**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. Officers from the Department of Foreign Affairs and Trade first appeared before this committee at a public hearing on 20 October last year. I now welcome them back for the second public appearance before the committee.

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

**Ms Fayle**—By way of an opening statement, the best thing I can do is to update the committee on the basis of the first senior officials meeting which was held in Penang. The last time we talked to you was after the Vancouver leaders meeting at the end of last year but before the first meeting of this year. That meeting has given us a better feel for how things are going in APEC in 1998.

As you are aware, Malaysia is in the chair. In general, we are very pleased with the efficiency with which Malaysia is chairing procedures. Although they had a very strong focus at the end of last year on wanting to do a whole lot of economic and technical cooperation activities, we found at the first senior officials meeting that they are also extremely keen—as we are—to progress the early voluntary sectoral liberalisation part of the agenda. In fact, it would be fair to say that they regard implementing as much as possible of that agenda as one of the main things that they can achieve as an outcome from 1998.

However, they are still concerned to focus on capacity building and see that as very important. On the reform agenda that they mentioned they had a strong interest in progressing, it is fair to say that they see progress going a little more slowly than they had perhaps anticipated when they announced at the end of last year that they were going to pursue this.

Everyone is aware that it is a very difficult year for APEC this year. The trade environment has changed substantially since early 1997. There is a very big agenda which is no longer mentioned in broad terms, but there are some very specific things in terms of liberalisation that have been set by leaders for us to achieve during the year.

The indications from the Penang meeting are that a lot of the economies of the region are distracted by what is happening domestically in their own economies. They are also suffering from government spending cutbacks as part of their response to what is happening in their economies. That has led in some cases to resources being quite thin on the ground for APEC matters and meetings. We are aware that we have a larger job ahead of us in terms of making sure that the right officials and the right ministers are fully across the issues in the lead-up to ministers and then leaders meetings during the year.

The atmosphere of slower economic growth in the region is also one that will probably affect the outcomes as we move towards the end of the year. It is much more difficult to make tough political decisions on removing barriers to trade if you have slower economic growth at that particular point in time. However, having said that, we are not detecting any indication of falling back on commitments already given.

We have also detected that the IMF packages have already forced the hand of a number of the governments in the region in the direction of greater liberalisation. So there are quite a lot of things that these economies will be able to report in their individual action plans this year and it will be quite a good year in that sense.

There are mixed views about the appetite for reform and how that will be affected by slower growth. Certainly, there is a greater interest in what was an Australian initiative last year of communicating the impact of trade liberalisation. A number of economies who showed very little interest in that last year have approached Australia and said that they now understand why that is so important and they have a much stronger interest in pursuing that this year.

In terms of the financial crisis and APEC's role, there is a very sensible approach. Members of APEC understand that APEC is not the IMF. It is not an international financial institution and there are no quick fixes. Having said that, there has been quite a bit of discussion already this year about what a sensible approach is for APEC: one that focuses on liberalisation and capacity building as a way to future growth and one that brings that brings finance ministers' discussions more clearly into the central discussion in APEC.

There are a number of initiatives under way there in terms of improving financial and regulatory frameworks and skills in the region. There are a number of other working groups under the APEC umbrella that are pursuing activities that will lead to greater transparency, better prudential arrangements, fostering safe and effective capital markets and also dealing with some of the social impact and fallout of the crisis.

There is a range of areas where APEC has decided it is appropriate for APEC as a body to respond to the crisis and we think that there is a sensible approach emerging from that. That is probably a snapshot or update of how we see things coming out of the Penang meeting and we are happy to answer questions.

**Senator COOK**—APEC appears to be under a greater challenge now than ever before. We keep opening our papers and finding criticisms of APEC and the lack of leadership APEC is providing in the region. I appreciate the views that have been just expounded on how APEC fitted into this crisis.

Is it not true that, unless APEC can play some role which constructively assists the countries in this region that are affected by the currency crisis, then APEC's relevance as an organisation—which stands for the improvement of economic circumstances in its constituent members—has to be under question?

**Ms Fayle**—I do not disagree with that. There is a lot of pressure and expectation on APEC to show that it is relevant for the region in bad times, as well as good times. I think that is well recognised by APEC members, which is why there is an agenda there. Overall, APEC as an organisation responded very quickly. At the time of the Vancouver leaders meeting, for example, the financial crisis was very new. In the case of Korea, Korea called in the IMF during the actual Vancouver leaders meeting.

For that leaders meeting to come out with strong statements on the need to continue the momentum of liberalisation—because that was ultimately one of the best ways of returning these economies to growth—was quite a strong and rapid response. Also there was a signing on to a Manila framework which has a number of elements to it, including early warning systems for the region as preventative treatment to ensure that this sort of thing is less likely to happen again, or that we have some sort of warning and preparation for it.

It is very important, however, to understand that APEC is not an international financial institution and, for example, is not going to be able to play a role in restructuring corporate debt in the region. That is not a role for APEC. Nevertheless, APEC has again responded in Penang by steering working groups towards some of the activities that will be quite productive in the current circumstances, in particular, things which relate to training for individuals in the region who are working in capital markets for officials who work on prudential regulation and those types of issues. There is a role that APEC is picking up and pursuing.

**Senator COOK**—Given your recognition of the first point of my previous question, can you set down for the committee which specific initiatives the Australian government has taken within APEC to deal with the Asian currency crisis in this region?

**Ms Fayle**—Australia is one member of APEC, so not all of the initiatives that relate to this have been Australian initiatives. We have to talk about the 1997 initiatives because initiatives are still being discussed and developed for 1998. In the 1997 context, it was an Australian initiative to push ahead quickly with early voluntary sectoral liberalisation. Had that not happened, we would still be talking in terms that are couched in strong rhetoric

about the Bogor goals. Early voluntary sectoral liberalisation was a way of pushing the envelope forward and trying to get some concrete outcomes on liberalisation.

I think that relates in an indirect way to addressing the sorts of things that were happening in the region and will certainly be beneficial to growth in the region to the extent that that can be implemented. As I said in my preliminary remarks, I think the work of Australia on the benefits of liberalisation is also something that is now recognised as being very important at the moment as economies go through the fallout from what has happened in the financial crisis. It is much more important for them to be able to sell a message to their constituencies that we need to keep pursuing liberalisation—that liberalisation was not the cause of the crisis and therefore remains an objective in APEC. That was initiated by Australia.

We have also taken a strong role in the finance ministers meeting and have signed on to the Manila framework there which has a number of aspects to it that are directly focused on the financial crisis. There are a number of other instances where we have certainly signed on and pursued issues that were not necessarily Australian initiatives. In the Penang meeting this year we also pushed very strongly for all of the working groups to be reminded that there are elements in their work programs that can be focused on addressing the particular crisis at the moment.

**Senator COOK**—What particular areas does the department think ought to be addressed in order to help this region through the crisis?

**Ms Fayle**—I think one of the main realisations on the part of the affected economies as enunciated at APEC meetings was not that they were disappointed with what liberalisation had developed for them but that they had realised that there needed to be a certain amount of capacity building hand in hand with liberalisation processes. A number of the economies, for example, said that they had realised that opening up your capital markets is fine and should be an objective, but it is very important to make sure that you have built the capacity in your banking system before or in conjunction with doing that.

I think that there is a very strong recognition that some of the capacity building elements of APEC are things that APEC as an organisation can push further and faster. Those relate not just to human skill development in the relevant areas—accountancy skills, banking skills, prudential regulation skills and those sorts of things—but also to things like the infrastructure framework which was agreed on at the end of last year and which puts in place some principles for more transparent, more prudential transactions in infrastructure projects and infrastructure development throughout the region. I think that capacity building is very much a clear role for APEC. There are no other organisations that do that to the same extent with this group of countries. Some of it certainly happens with World Bank and Asian Development Bank activities in the region, but not in the same sort of comprehensive coordinated way. So there is a very clear role for APEC in capacity building in the finance sector and in related sectors.

I think there is also a clear role for APEC to talk about early warning systems, and that has come out of the Manila framework which leaders endorsed at Vancouver. There is a need to discuss, more openly, economic policies that each of the member economies have

and the directions those are going in and to think about some sort of early warning reporting and systems that might be put in place. As I said, I do not think it is a role for APEC to overlap or double up on the role that the existing IMF already plays in the region.

**Senator COOK**—That list excludes APEC taking a view or doing anything at all about, for example, the social and political upheaval in Indonesia because of its currency crisis or, if you want to put it on a different level, acting to facilitate or encourage any one of those three gradations of response to the need for food aid and the simple necessities of life, where people are starving as a consequence not just of the currency crisis but of the El Nino effect. Do you see APEC having anything at all to do with those types of issues?

**Ms Fayle**—Again, this is an area where a number of bodies are working. In terms of the food aid issue, Australia has been active in pushing greater coordination of effort on the ground in Indonesia. There is a realisation that a lot of the problems relate to distribution and pockets of lack of purchasing power, rather than actual food supply, and Australia has been instrumental in pursuing coordination under the umbrella of the World Bank.

In those sorts of situations, APEC does not have a framework of development assistance deliverers on the ground throughout the region, so the World Bank, the ADB and various non-government organisations that do have people on the ground and have the delivery mechanisms are the appropriate ones to coordinate in this regard. I do not think anyone in APEC sees a need for an overlapping role for APEC in that regard.

In terms of social and political upheaval, APEC has trade ministers having dialogue, so some of those issues are not appropriate for that dialogue. However, as I pointed out earlier, in the human resources development working group there is a new activity under way to examine and think about ways to address some of the social and employment impact of what is happening in the region. So there are roles, but APEC has been very careful to try to identify roles such that it is not reinventing the wheel or overlapping with other existing organisations on the ground in the region.

**Senator COOK**—Just to wrap up and conclude my series of questions, is it therefore correct to say that the initiatives taken by the Australian government in APEC for the Asian currency crisis were to encourage the voluntary sectoral liberalisation and to explain the benefits of liberalisation in member economies; that we played a supporting role at the finance ministers meeting; and that the areas where APEC can play a role in the future in managing this crisis are in capacity building activities within the economies and in the development of early warning systems?

**Ms Fayle**—And also in continuing to pursue the momentum of liberalisation. That is in all of our interests in the region, and Australia continues to be at the forefront of pushing the envelope out in terms of general trade liberalisation and facilitation.

**Senator COOK**—Fine. I will put that down as well. But that is the sum total of the government's initiative and perspective on what it should do in APEC over the crisis?

**Ms Fayle**—This is directly in response to the crisis. I do not know if my colleagues can think of additional items that I have missed.

**Mr Sparkes**—No. I think the point is that we are talking about what APEC can do here, and Ms Fayle has given you a much broader view than just what APEC can do, based on her own understanding and experience. But, from a narrow APEC point of view, there are obviously limitations in terms of the institutional capacity of APEC to operate in some of these areas.

**Senator COOK**—You do not think therefore, Mr Sparkes, that one of the possibilities that Australia could take an initiative in is to address some of those institutional limitations in view of the catalytic effect that a crisis of this dimension and depth would have?

**Mr Sparkes**—It is always for institutions to respond to the environment that they are operating in and I guess APEC has the advantage that its consideration of issues runs on an annual cycle. We do have, as you know, a trade ministers process. APEC trade ministers usually meet in the middle of the year—they are scheduled to meet in June—and then the trade ministers, foreign ministers and leaders will meet in November. That does provide an opportunity at the most senior levels of government to reflect on whether or not the institutional capacity of APEC is suited to deal with the issues. I guess that is something which we would want to look at as we run up to those political level meetings.

**Senator COOK**—But not share with the committee at this stage?

**Mr Sparkes**—It would be appropriate for us to share our thoughts with our ministers in the first instance.

**Senator COOK**—Is it intended this year that the minister actually attends the trade ministers' conference, unlike last year?

**Mr Sparkes**—Yes, Senator.

**Senator COOK**—Good.

**Ms Fayle**—Perhaps I could just add one thing, that we are not starting from scratch in terms of responding to what happened in the region. There were already a number of initiatives agreed on earlier in 1997 that are very relevant. In the finance ministers meeting in April 1997 there was agreement for enhanced cooperation among export financing institutions; strengthening financial market supervision; strengthening clearing and settlement infrastructure; supporting development of rating agencies and strengthening information disclosure standards; a regional forum on pension fund reform; a regional forum on securitisation; and a voluntary action plan for supporting the freer and stable flow of capital.

So in many ways a lot of the work under the APEC umbrella had second guessed some of the problems in the region. It was already working towards some mechanisms that might assist the development of the financial sector.

**Senator COOK**—This is capacity building, in essence?

**Ms Fayle**—It is capacity building and harmonisation of rules and regulations and steps to greater transparency in a lot of cases.

**Senator COOK**—Thank you.

**Senator LIGHTFOOT**—I want to refer you to Dr Soesastro from Indonesia. He seems to be of the opinion that there are two cultures that exist in APEC. One is the softer, gentler, kinder culture of the Asians that have far more emphasis in terms of the percentage of the dollar that is spent in that area. The other culture is the Anglo-Saxon culture—I guess we could almost define it as New Zealand and Australia, which play such a significant role in APEC—which puts more emphasis on the development and expansion and less on the social issues in the area. Given the temporary crisis of the four countries in Asia—South Korea, to a lesser degree; Thailand; Malaysia; and Indonesia—do you think that that is fair comment by Dr Soesastro?

**Ms Fayle**—Hadi Soesastro has written a lot about APEC and I have had a number of discussions with him. I would not dispute that part of APEC has been to try to put the two cultures that you talk about together for a productive outcome. There is a recognition that unless you can encourage some of the economies in the region to feel comfortable with the processes and what they are doing through capacity building and other means, then achieving the sorts of harder expansionary trade liberalisation objectives that Australia and New Zealand and others may have is very difficult.

APEC itself is really a blending of cultures into a consensus forming approach. It is not quite like the WTO or certain other international bodies in that regard. It tries to blend the needs and requirements to bring everybody along at the best pace that can be achieved at any given point in time.

So, yes, I think those cultures do exist and probably a whole lot of other subcultures within the APEC grouping. Part of the trick with achieving progress is to try to understand where each of the APEC members is coming from and to encourage them in certain directions.

**Senator LIGHTFOOT**—With regard to those directions that we should be encouraged to go in as APEC members, are you saying then that we should have less emphasis on economic achievement from Australia and New Zealand and more on social issues? Perhaps Indonesia, for instance, which is our closest neighbour and certainly our most populous, should have more emphasis on economic development.

**Ms Fayle**—No, I think the overall emphasis within APEC is on achieving economic development. Where the cultural differences come in is, in a sense, the ways in which we get there. It is fair to say that a number of the developing members of APEC see a need to build capacity—to have a lot more economic and technical cooperation on the way to liberalising. I do not think there is any difference in their desire to achieve economic growth and development. That is probably the one thing that all APEC economies have in common. As I said earlier, Australia continues to push the envelope out on the tougher trade liberalisation market opening activities but we also play a role in trying to understand what it will take in other areas to encourage other economies to come along with that agenda to push them as far as we possibly can rather than confronting them with things that are too difficult and which are not perhaps agreed on within those economies. Those economies, as individual

economies, need to decide that they want to pursue certain things themselves before they agree to them in APEC.

I guess it is a subtle mixing of objectives but the overall objective of economic development and growth is a stated one in APEC. That is what APEC is all about. That is why the Bogor goal is there: because it is perceived that liberalisation and market opening is a way to get better and greater economic development and growth in the region.

**Senator LIGHTFOOT**—Is cultural difference, in this respect, a synonymic phrase for lack of economic expertise?

**Ms Fayle**—No, I do not think it is fair to say that. When we sit around the table with officials and counterparts there is a wealth of knowledge and expertise at very high levels from all of the APEC economies. I think it is just that they have very different domestic situations in their own economies; therefore they need to work in certain ways. Australia is also in that category. Every member of APEC has certain domestic economic frameworks that it has to operate in. You cannot go to an APEC meeting and decide you will do X, Y and Z if you do not have the legislative cover back home or if you do not have the political cover back home.

There is a process within each of the APEC economies that needs to be blended in the APEC process. That means that a lot of these economies are much more interested in the economic and technical cooperation parts of the agenda and are much more reluctant on removing tariffs and on some of the difficult trade facilitation issues. Others, such as Australia and New Zealand, are much stronger at trying to push the tariff barriers down, although Australia itself has certain sectors in which it has sensitivities. Each of the economies has sensitivities in certain policy areas and APEC is all about trying to blend those and push them forward at the best possible pace.

**Senator LIGHTFOOT**—Would it be fair to say that the disparity between the economies of, say, Indonesia and Australia, where Australia has perhaps one-tenth of the population of Indonesia yet the economy of Australia is 10 times that of Indonesia, reflects an evolutionary aspect of Indonesia given its relative youth as a nation?

**Ms Fayle**—I guess you could say that for any of the developing economies. Yes, Australia and other economies are further down the path of development. That is the interesting and difficult—

**Senator LIGHTFOOT**—Perhaps, if I could interrupt you, Singapore is an exception?

**Ms Fayle**—Not just Singapore; Hong Kong is another economy there. I think there is a representative of almost every part of the spectrum of development within APEC, particularly now with the three new members which will come on board at the end of the year.

You have economies such as the Philippines, Indonesia and, soon, Vietnam, that are at the very early stages of industrialising and developing their economies, right up to the United States, which is the world's largest and most industrialised economy; there is Japan, and, in between, there is everywhere from Chile to Malaysia to Australia and Canada. There

is a full range of economies there, each at different stages in the development process. That does add complexity and difficulty to what is a consensus based organisation.

**Senator LIGHTFOOT**—Was that yes to my question?

**Ms Fayle**—Yes, there is a full range.

**Senator LIGHTFOOT**—That was yes to my question with respect to Indonesia because of its relative youth as a nation and it is at an evolutionary stage. That can only improve, given time, to something that would be emulative of Australia?

**Ms Fayle**—It is very hard to predict that it will get to that point or how fast it will get there because economies develop in different ways and in different patterns. They have different resource bases.

**Senator LIGHTFOOT**—I understand that. I will pass that one.

**Ms Fayle**—Yes.

**Senator LIGHTFOOT**—With respect to Indonesia, which I do have some preoccupation with because of its proximity to Australia—not because of any particular trading nexus that it has—and because of its demographic problems that are only now inherent perhaps in Jakarta, I was informed by someone very close to the administration of Indonesia that the best thing Australia could do was to ‘leave Indonesia alone to settle its own crisis’. Would you agree with that?

**Ms Fayle**—No. I do not think that is the Indonesian government approach either. They have had a number of discussions with the Australian government, including at ministerial level. My understanding is that they are very welcoming of Australian advice and certainly welcoming of our assistance, particularly in terms of the additional food aid that we have provided for Indonesia. I should point out that a lot of that is driven by drought conditions and not so much by the current economic crisis.

**Senator LIGHTFOOT**—We would do that then as a matter of course, regardless of the existing monetary crisis there.

**Ms Fayle**—Those sorts of things are done in consultation between governments.

**Senator LIGHTFOOT**—I understand that.

**Ms Fayle**—However, we would not agree to additional food aid if they did not want it or ask for it.

**Senator LIGHTFOOT**—I would not expect to supply tonnes of rice without some consultation.

**Ms Fayle**—We would not give it to them if they were not welcoming of it. I guess that is the point I am making. I do not agree that it is a view coming out of Indonesia that they

would prefer that Australia just left them to their own devices. Certainly the Indonesian government has been very welcoming and very appreciative of the Australian government's efforts in talking to the IMF and in taking a position to try to broker a better accommodation between the Indonesian government and the IMF in the interests of Indonesia.

**Senator LIGHTFOOT**—Given the relatively small contribution that Australia makes to the IMF, and Dr Wolfensohn aside, what is there Australia can do to influence the IMF with respect to its policy in Indonesia?

**Ms Fayle**—Dr Wolfensohn is the World Bank and not the IMF—

**Senator LIGHTFOOT**—Which has some influence on the IMF.

**Ms Fayle**—Yes, he does. I think Australia probably has done a number of things that are very relevant. One of the most important things that we could do and have done is to extend export credit arrangements to ensure that trade keeps flowing between Australia and Indonesia. A lot of that trade is in items such as wheat and sugar, for example, that are very vital if you start to examine social fall-out from what is happening in Indonesia. We have made a contribution to the IMF support package and we have also taken additional steps to have our aid agency, AusAID, visit Indonesia to get very detailed on-the-ground understanding of what the requirements are and might be in terms of food aid, medical supplies and other sorts of matters.

**Senator LIGHTFOOT**—Have they reported back yet?

**Ms Fayle**—Yes, they have reported back. I believe Trevor Kanaley, the head of AusAID, accompanied Mr Downer on his recent trip to Washington and had meetings with the World Bank.

**Senator LIGHTFOOT**—Could you enlighten the committee as to their report—that is, information that the committee may not have?

**Ms Fayle**—I do not have that report; you would have to ask AusAID directly for information.

**Senator LIGHTFOOT**—Not even in a generic sense?

**Ms Fayle**—No. I have some basic knowledge that that on-the-ground examination was related to distribution and requirements. Also, one of the main things that evolved from the investigation was the need for greater and better coordination on the ground in Indonesia if we were to respond to developments over coming months. That was behind the discussion with the World Bank about the need for greater coordination of effort, and the World Bank has responded to that.

That is really the limit of what I can say publicly in this committee. It is not really a matter closely associated with APEC. I would recommend that you touch base with Trevor Kanaley in AusAID if you have more detailed questions about that.

**Senator LIGHTFOOT**—I was also told by the same source that Australia could make a contribution outside the main centres of Jakarta, particularly. He was referring to the south coast of Java. He said that they are amongst the poorest in Indonesia on the archipelago. It was suggested that—to use the old maxim—if you give a man a fish you feed him for a day but if you give him a fishing line he can feed himself ad infinitum. According to my source, that is almost literally true—there is some desperate need for aid to the southern island of Java. Do you see that as an APEC responsibility?

**Ms Fayle**—No, not directly an APEC responsibility. Those sorts of issues are usually handled through international aid consultations and just through our own bilateral aid program. I would suggest if there are particular gaps in the program or ways that the program can be improved, AusAID would be very keen to hear those. I do know that within Indonesia the problems are not constant throughout the country; there are certain pockets where there are greater problems than others. That relates to food shortages as well as a whole range of other issues—medical supplies, et cetera.

There are some parts of Indonesia that do not have problems; there are others that have some serious problems. That is all part of AusAID's investigation and collaboration with other aid agencies to discover the best ways that help can be provided, as well as what the nature of the help should be. The distribution and logistics problems in Indonesia are being examined very closely by AusAID.

**Senator LIGHTFOOT**—Is it somewhat camouflaged? Given the distance between that particular geographic area of Indonesia I have mentioned and the distance between the triangular access of Canberra, Melbourne and Sydney, it is in fact juxtaposed to Western Australia and, as a consequence, becomes more apparent to that side of Australia. Do you think there is enough emphasis given by the various organisations within and outside APEC to the situation in Indonesia with respect to aid of that kind?

**Ms Fayle**—Those sorts of issues tend to be sovereign issues for the member economies of APEC. While APEC is keen to pursue economic development and economic growth, how that is distributed within an economy is really a sovereign matter for that government, as is normally the case. So APEC does not involve itself with those sorts of issues that are seen to be the prerogative of the sovereign government of that economy. It is up to them how they distribute the benefits of growth and economic development within their own economies.

To that extent, APEC does not involve itself with those sorts of issues. But as I pointed out, there are examinations of that going on in the current context by AusAID and they are really not matters for this group of people here. I am not an Indonesia expert, for example. I would suggest that you might wish to talk to the Indonesia part of the department and to AusAID about some of those issues.

**Senator LIGHTFOOT**—Let me go to trade liberalisation within APEC. Do you believe that trade liberalisation would benefit the crisis-wracked economies in Asia? I think it is misleading, in the least, to refer to the crisis in some of those economies as the Asian crisis.

It certainly reflects on some of those countries that are in deep trouble, and I have mentioned them before—South Korea, Thailand, Malaysia and Indonesia. But outside those

economies, there seems to be very little problem with their respective economies. India, the biggest democracy in the world, has a growth in trade with Australia. China has over an eight per cent across-the-board growth projected for this year. Is it better to talk of those economies specifically, or would you consider that, in your view and in your experience, to be offensive to those countries. Is a more general term of 'Asia' more acceptable in that regard?

**Ms Fayle**—I think most analysts use the term 'Asia' as a generic cover-all when referring to the region. I do not know that people necessarily take offence, but you are right when you say that there is no such thing as an Asian crisis, because it is not pervasive across all of the member economies. Also, the crisis is different. There is a Korean crisis which has a whole different set of factors associated with it from what happened in, say, Thailand. So even when you talk about a country which does have a crisis at the moment, the crisis is a different one. There is not some sort of generic crisis.

**Senator LIGHTFOOT**—But what they do have in common is perhaps a monetary crisis. Is that a reasonable comment?

**Ms Fayle**—I think financial sector weakness is probably the issue that they all have in common to some extent. Some macro-economic policy mistakes that were made in order to try to cover up for some of those weaknesses over recent years have probably led to the crisis. So there are some commonalities, but the manifestation and the nature of the crisis is different in each of the economies. I think you are always up against this when you are talking about the region. We say 'the region', we say 'Asia-Pacific', we say 'Asia' and, of course, there is great diversity and difference within that.

**Senator LIGHTFOOT**—With respect to trade liberalisation, have you seen any manifestation of barriers re-emerging that are to the detriment of what were positive moves for trade liberalisation within the APEC region?

**Ms Fayle**—In general we have not seen back-sliding, we have not seen economies wanting to go back on their commitments. However, within the IMF programs, as well as some fairly landmark decisions to open markets further, there are also some elements where tariffs were raised. It is particularly the case with luxury consumer goods such as wine, such as luxury cars in Malaysia, where tariffs were put back up. Those tariffs have not been put up beyond the bound levels agreed in the WTO.

**Senator LIGHTFOOT**—Doesn't Malaysia have tariffs of 300 per cent on some—

**Ms Fayle**—Malaysia put its luxury automotive tariff from 200 per cent back up to 300 per cent as an exercise designed to raise extra revenue to help balance the budget, and also to reduce imports to deal with the current account problem. I think in the case of Thailand, the same happened with wine. There were some positive moves of opening up the wine market there and that closed up again as part of an exercise to stop consumer spending on some of those luxury items, to reduce imports and to raise revenue. Those are standard elements that tend to be incorporated in IMF packages of this sort. The interesting thing is that, in amongst that, there have also been substantial tariff reductions in areas as part of the

IMF packages. So overall there is no indication of backsliding and moving to put tariffs back up.

**Senator LIGHTFOOT**—What is your prognosis—reflecting your department's prognosis, of course—for the complete implementation of the IMF package with respect to Indonesia?

**Ms Fayle**—I do not think I can give you a forecast there, other than to say that the IMF is currently on the ground in Indonesia reviewing the package. I believe we are yet to have an agreement between the Indonesian government and the IMF on the full detail of the package—

**Senator LIGHTFOOT**—That is not imminent?

**Ms Fayle**—I am not sure; I am not across that particular issue at the moment. I just know that the discussions are going on and that they are going better than they perhaps were some weeks back. The IMF packages change over time. The nature of the package with Thailand, for example, was that it was reviewed and adjusted, reviewed and adjusted. That is the nature of the IMF packages anyway. Given that the packages themselves evolve over time, it is very difficult for anyone to make a prognosis about whether a particular country can abide by the full detail of a package.

**Senator LIGHTFOOT**—Thank you for your contribution this morning, Ms Fayle.

**CHAIR**—I would like to follow on from there on the issue of the IMF involvement. I have asked this question of others. Can the IMF involvement be seen to have in some way weakened APEC as an organisation with its focus on voluntary trade liberalisation, as opposed to the IMF stepping in and imposing trade liberalisation as part of the packages of redemption in some of these economies? Has that come across anywhere in discussions by officers of the department?

**Ms Fayle**—I do not think it has weakened APEC. It certainly has done in a more rapid way some of the work that APEC had set itself. APEC had been interested in having a lot of these markets open more, a lot of the barriers come down. The IMF packages have actually enforced some of that very quickly and we have probably achieved some market opening that otherwise would have taken a lot longer through the voluntary consensus basis of, say, APEC or through WTO or other channels.

There is no doubt that the IMF packages have speeded up liberalisation in certain areas—not across the board. There is still a lot of work to do, however, and the IMF packages are not things that are usually in place for excessive periods of time. Governments who have called in the IMF usually want to do what they have to do and regain their ability to control policies as soon as possible. So I do not think it weakens APEC or weakens the need for APEC to continue to push for liberalisation in a whole lot of areas, but it does make the job easier at the current point in time by enforcing some market opening in some economies.

**CHAIR**—So it should enable us to reach the Bogor targets by 2010 and 2020?

**Ms Fayle**—I do not know whether I would go that far, but it would certainly help us in that direction.

**CHAIR**—Does this mean that APEC itself will need to take a step back and look at how it now views the trade liberalisation issue, maybe revamp its goals in some way?

**Ms Fayle**—No, I do not think there is a desire to change the overall goals as set down in the Bogor agreement. Obviously, tactics and negotiations and directions are changing all the time as APEC officials meet and respond to what is happening in the region. APEC officials will detect certain areas where it is going to be more difficult at the moment and others where it might be made easier.

Certainly there is a push on to have various economies document the liberalisation that they have done in the IMF context, to write that into their individual action plans, so that it is an extra reason for them not to go back on the commitments they have made in the IMF context. APEC has a reinforcing role there and in that sense it is probable APEC economies sitting around the table at meetings have adjusted to try to make sure that we no longer need to push for some of those things, but we do need to make sure that they are reinforced in the APEC process.

**CHAIR**—Does this mean that there needs to be a strengthening in the approach by APEC of reporting on the individual action plans? That was described by a number of witnesses before the committee as a weakness. Whilst we understand the nature of APEC itself, they were saying that there was no strict adherence for someone to report back and say, ‘Yes, we can give this a tick. Yes, we can give that a tick.’ Will this emerge within APEC and maybe thereby place it at risk to a certain degree, because its strength has been the voluntary nature of it so far?

**Ms Fayle**—No, I do not think so; I think the economies that have taken steps in response to IMF packages will be rather keen to report on those steps in their individual action plans to take credit for having done those things.

It is very hard to put benchmarks on the individual action plans. I am aware that a lot in the private sector, for example, would like a benchmark there so that each year there is an improvement. We certainly push in a general sense for there to be an improvement in everyone’s individual action plan each year. However, it is voluntary and up to the individual economies as to how they get to the Bogor goals. Benchmarks become very difficult in that context, because if they choose to do very little one year and then a lot the next year, then that is really part of the APEC process; it is within their sovereign control to do it in that sort of way at that sort of pace. We do, however, try to push harder and faster on these things.

I do not think the IMF packages will change a lot, other than that they will mean that some of these economies have an awful lot of achievement to report in their individual action plans this year, but then may find it very difficult to make subsequent improvements the following year because they are then in slower growth and they have done the things required of them by the IMF. So it will be something that we will have to keep an eye on if we want to keep the reform momentum going.

**CHAIR**—So it would be fair to say that if, as some of our witnesses put to us, we were to insist on some form of benchmarking, that could well destroy the work of APEC completely.

**Ms Fayle**—It is probably fair to say it would be inappropriate and would be viewed as such by a number of the economies who probably signed on to the Bogor goals on the understanding that they would have control over how they got to them themselves. If you start being overly prescriptive about what you need to achieve each year for each of the economies, then, yes, that could become counterproductive and problematic, I suspect.

**CHAIR**—Thank you.

**Senator SANDY MACDONALD**—Just following on from what Senator Hogg said, is there evidence of backsliding with respect to individual action plans? Can you make that assessment?

**Ms Fayle**—I am not aware of any backsliding. By and large, we have been keeping a close eye on these plans. Some of them talk about implementation, having agreed within their economies to implementation over a number of years, so some of the things that they have promised in the individual action plans are yet to happen. We will have to monitor those. But economies tend not to put things in their individual action plans that they cannot deliver on—that is my experience.

**Mr Sparkes**—We need to recall that the Bogor targets really go out a long way—2020 for most of the economies we are talking about involved in the regional crisis. That is 22 years. While it is tempting to get a little distracted by the short-term nature of the crisis, it is a bit early to panic as to whether or not those economies are actually on track in terms of their IAPs.

**Senator SANDY MACDONALD**—Point taken. But governments are made up of politicians who are unlikely to be in power, or have no certainty of being in power, as we approach the target dates. Therefore, I was wondering whether they will make undertakings which will push out the responsibility of meeting those undertakings to a time when they may not be in power. Is there any evidence of that?

**Mr Sparkes**—I guess the targets are already beyond the effective political lifespans of anyone who is in power at the moment. One of the important things about APEC is that those commitments are renewed each year at the level of leaders and ministers. That is something which we, as officials, certainly grasp and continue to use in our annual cycle of meetings to push further on with the process. I guess it is also true to say that there will be a number of factors, even looking at the 2010 target. By 2010 we will have had another 12 years of development in the region. Let us assume that we have worked through the existing crisis and that a number of the economies get back onto what many would regard as being a more normal long-term growth track.

We would also assume that by about 2005 we would have entered into, and hopefully would be concluding, the next multilateral round of trade negotiations. That is going to have a very important impact on the environment in which further trade liberalisation is going to

take place, well ahead of even the 2010 deadline, let alone the 2020 one. From our point of view, we are always trying to maximise the commitments that are recorded in the IAPs. We have been working within APEC to ensure that the transparency of that process has improved because we certainly would not dispute that the first couple of years of IAPs were not consistent in terms of their content, or the format in which they were set out. That actually makes it quite difficult for people to analyse what is really in those IAPs and the nature of those commitments. So improving the transparency is certainly one element, but we continue to push bilaterally, as well as in a more general sense, for those Bogor commitments to be properly reflected.

**Senator SANDY MACDONALD**—You mention the next round of the multilateral trade negotiations in 2005. Is that under the umbrella of the WTO?

**Mr Sparkes**—Yes.

**Senator SANDY MACDONALD**—In terms of the individual action plans again: non-tariff barriers are barriers to trade. Are they covered by individual action plans, or are they something which are uncontrollable?

**Ms Fayle**—No, they are covered by individual action plans. Individual action plans record progress in reducing tariffs or removing non-tariff barriers, other reform processes within the domestic economy, and investment is covered, also. Anything that frees up and opens the market is recorded in the individual action plans.

**Senator SANDY MACDONALD**—Mr Richard Woolcott, writing in today's *Sydney Morning Herald* makes the point as a supporter of APEC of saying that it is the strongest force for agreed trade facilitation, trade liberalisation and regional economic integration. But he puts two provisos on it. He makes the obvious point that it has been marginalised by the current east Asian crisis affecting the core members and by the participation mainly of Russia, which he says we opposed, and the participation of Mexico, Chile and Peru.

I guess that he is making two points. Firstly, there is the point that there is really no driving force in APEC now in terms of leadership. If you take Japan, for instance, it has been preoccupied with its own economic problems for much longer than the east Asian economic crisis. If you take a particular example, President Suharto who hosted the Bogor meeting in 1994 has many other concerns about his own domestic economy rather than with his trade undertakings. Do you think that those two aspects—the broadening of the membership of APEC and Russia, and the lack of leadership—have taken the focus away from the organisation?

**Ms Fayle**—Firstly, you referred to what Richard Woolcott had said about APEC being marginalised. What he actually said was that APEC may seem to have been marginalised, and then he went on to argue why it has not. I do not think that he thinks it has been marginalised by the economic crises, but, rather more, that that crisis poses challenges and opportunities for APEC.

In terms of what you say about membership, there is no doubt that there is a larger membership, and now with the addition of Russia, a more diverse membership of APEC.

That does make it much more difficult to arrive at consensus on issues. There is no doubt about that. But if APEC were still at the state it was when it was kicked off and Australia was still the loud voice, the main voice pushing it, and the membership was still small, then I think we would have deemed APEC to have been unsuccessful. It has been successful in the sense that Australia is not the only voice pushing APEC, membership has increased, and the desire to join APEC is certainly still out there among a number of economies that are not members. They would not be pushing at the doors to join if they felt that APEC was not an organisation worth belonging to.

On the leadership issue, I think that the role of economies in APEC and leadership in APEC come and go, depending on what issues an economy is dealing with at a particular point in time. Certainly the chairing of APEC moves every 12 months and that does tend to define the APEC agenda somewhat because each of the economies, as it is in the chair, pushes particular issues that it has a very strong interest in. We saw Canada pushing particular issues last year; Malaysia is in the chair this year; New Zealand will be in the chair next year; and then Brunei. As it changes leadership, the various economies tend to change the sorts of focus that is put into APEC and that leads to a much more balanced leadership than, perhaps, one or two countries out there dominating.

It tends to be that various economies show leadership on particular issues of interest to them. China is, for example, pushing very heavily for economic and technical cooperation issues at the current point in time, particularly in the science and technology area. Australia traditionally pushes much harder on the liberalisation agenda than do a lot of economies. Leadership is a very difficult thing to define and I think, that probably at any point in time, we look to the economy that is chairing APEC for that year to show the required leadership.

**Senator SANDY MACDONALD**—Perhaps I might come back to membership again in a moment. You mentioned leadership and this year it is the leadership of Dr Mahathir. He would be probably the region's greatest APEC sceptic. Some of his public comments on the crisis have been near farcical in terms of the conspiracy theories he has run, and various things like that. Acknowledging what you say, that countries on a basis of particular concerns do come to the fore and that, perhaps, the importance of APEC will wax and wane—it will be more important at some times than others—would it be a fair view that this particular east Asian crisis is not something that will affect the long-term role of APEC but that, in fairness, it may be appropriate to say that APEC may have responded in a more helpful way than it has?

**Ms Fayle**—No, I do not think that it is possible to say that. APEC is constantly assessing its situation in the region and what its response should be. It is a moving issue for the members of APEC. It is not something that is static and has been handed down and that is all we are going to do. Throughout this year, APEC will be continually looking at what other avenues it is appropriate for APEC, as an organisation, to pursue.

I think to date, from my general sense of the discussions I have had with other APEC economies, they believe that APEC has responded appropriately—that there were other things that might have been able to have been done, but they were not necessarily ones that were appropriate for APEC to pursue. APEC is, after all, an organisation to pursue freer

trade. It is not, as I said before, an international financial institution. I do not think that there is a lot of criticism around the region about the role of APEC.

As to Malaysia's role in the chair, so far we have seen a very strong focus on pushing the sectoral liberalisation agenda for all it is worth. That dovetails very nicely with our own objectives in that regard. They are also pushing on the economic and technical cooperation front with a particular focus on capacity building in areas that may help to avoid the sort of situation that has arisen in the region to date. I do not think that there is a feeling amongst the APEC member economies that APEC, as an organisation, has not done or been all that it could be in the crisis.

**Senator SANDY MACDONALD**—You mentioned the financial response, and I know that the APEC finance ministers are meeting in Alberta in May.

**Ms Fayle**—That is correct.

**Senator SANDY MACDONALD**—There are such obvious potential gains in the sort of regional response to the crisis which recognises a need, for instance, to reassure foreign capital that it will not get mugged where it might be parked in east Asia. You have to have that sort of general response that everything that is helpful to the east Asian crisis is very important. Dr Mahathir must see that and I wonder why he does not make more use of it.

**Ms Fayle**—I cannot really comment on Dr Mahathir and his views. Malaysia has certainly indicated a desire to push greater cooperation between the dialogue of the financial ministers and the dialogue of the other senior officials in APEC and require that senior officials receive a detailed report from the meeting in May. Certainly Malaysia has in mind to ensure not only that we have the financial sector dialogue but that the results of that feed more closely into APEC. I think Malaysia already has in mind to make more use of that dialogue.

**Senator SANDY MACDONALD**—I want to go back to membership and Russia. The membership of Russia certainly takes away from the east Asian core of APEC. It seems that the Russian membership makes it impossible to contemplate setting up an APEC finance rescue fund because of the increased risk of the demands of the Russian economy at some later stage. What comments would you have about that?

**Ms Fayle**—Russia does have a Pacific coastline and does trade with the region. In terms of an East Asia focus, there are already other member economies in APEC that are outside the region of East Asia—the US, Canada, Chile and Mexico.

There are challenges in any new membership in APEC. The larger and more diverse the organisation gets, the more difficult it is to pursue things quickly. However, there are also opportunities for us in ensuring that the Russian economic and trade policy develops in certain directions. APEC can be quite useful to our ultimate objectives of a freer trade environment.

In terms of the financial rescue issue, it is not the issue of Russia that is making officials and others question whether this is something that we would want put in place for the

region. It is in general the sense of: do you want to have a rescue package there such that people know that it is there and, therefore, there is a moral hazard? They are not as careful as they otherwise might be about running up debts or certain practices or certain loans because they know that they will be bailed out by a rescue package. I think that is the main thing that is exercising the minds of finance officials when they think about this issue, rather than any consideration of what Russia in APEC might mean for that.

**Senator SANDY MACDONALD**—I acknowledge that you concede that, as APEC expands its membership, it does become more unwieldy. What about the failure of APEC to develop a strong central secretariat to develop the institutional focus and momentum? I am not absolutely convinced about international bureaucracies because they do become expensive and cumbersome. If you do not have some legitimacy in the process that has some prestige, then clearly the membership of APEC is cumbersome and extremely diverse. One of its great strengths is you are not going to have some integrated and quick response to very difficult economic circumstances in which some members find themselves. Do you think that there should be a greater emphasis on a centrally cored secretariat with more power?

**Ms Fayle**—I think that was always avoided in the APEC context because of some of the issues you raised about large unwieldy international bureaucracies being not necessarily the way to go if you want to get quicker results. Although I do not want to appear critical, the United Nations and the OECD examples are there. They have large bureaucracies, some elements of which now make things quite cumbersome for them and which they wish in hindsight had not evolved. APEC, having started with that experience, was keen to ensure that some of those unnecessary bureaucratic layers were not developed. There was always a conscious effort not to make some sort of central bureaucracy a la the OECD.

Having said that, there is a small secretariat. I think it does have the benefits of being flexible and moving quickly. It is not one that superimposes great burdens in terms of resources or time on the member economies. That was always the objective. I do not know that I see a better alternative to that, quite frankly, when I look at the sorts of organisations that do have those large central secretariats.

**Senator SANDY MACDONALD**—I understand that Australia opposed Russian entry. What were the reasons for that? What did we say at the time? In what forum did that happen and what form did our opposition take?

**Ms Fayle**—As this is a public forum, I should say to you that Australia has always opposed excessive expansion of APEC membership. We had a well-known position that we did not think that APEC should expand too quickly simply because that did make things unwieldy and difficult. We felt there was already a large enough agenda and a large enough membership to bite off the sorts of things we had on our plate. There was nothing specific about specific new members in that. It was simply that we were keen to ensure that the pace of membership expansion was an appropriate one.

There was a consensus. It is a consensus organisation. There was a consensus in the leaders meeting to admit three new members. Australia has signed on to that consensus and we are enthusiastic about working with the new members, including Russia, to ensure that they make the transition into APEC in as effective and efficient way as possible. We are, for

example, sending an expert on IAPs and sectoral liberalisation to Russia to assist them at the technical level with some of that work. We are making a conscious effort to ensure that the new membership does not involve too much greater time consuming effort on the part of APEC and that it does not hold us up in making progress in some of these areas that are important to us.

**Senator SANDY MACDONALD**—You mentioned three new members. Weren't there four: Mexico, Peru, Chile and Russia?

**Ms Fayle**—No, the three new members that are coming on board this year are Peru, Vietnam and Russia.

**Senator SANDY MACDONALD**—Right.

**Ms Fayle**—Chile was in the early 1990s. There have been additions to the membership along the way.

**Senator LIGHTFOOT**—Mexico came in.

**Ms Fayle**—In 1992.

**CHAIR**—Just on the membership of Russia, what is the likelihood that Russia will be able to meet the Bogor obligations?

**Ms Fayle**—That has been discussed between the chair and Russia in terms of it using this year to assent to membership. It has not yet been ascertained whether Russia chooses for itself a 2010 or a 2020 Bogor target, but they have indicated that they will sign on to a target. The actual nature of that will become evident at some stage before they formally join at the November leaders meeting. They are certainly planning on preparing an individual action plan this year. Membership carries with it the requirement that they sign on to the sorts of things that we have agreed on in APEC.

**Proceedings suspended from 11.09 a.m. to 11.19 a.m.**

**CHAIR**—I just want to pursue the question that Senator Macdonald raised—that is, the issue of leadership. Whilst I understand that the chair of the organisation rotates, I think we are looking at the issue of leadership in the broader sense and the role that Australia needs to play. As I understand from its evolution, Australia has played a fairly significant role in APEC itself. The various economies have respected the leadership role that Australia has played.

It would seem to me that when one considers the various blocs around the place, whether it be AFTA, ASEAN, the east Asian economic community or whatever, we are not in those groupings as such. Therefore, APEC plays a very significant role for us and that gives us our entree.

It would seem to me that Australia needs to continue to play a significant leadership role within APEC in the future. I am just wondering how we do that. I think that really gets to

the nub of what this inquiry is about—Australia and its role in APEC. I do not think we can afford to take a back seat as a nation, and I am not suggesting that we are. But it seems to me that unless we keep that to the forefront of our personal goals as a nation, we may well be left on the side benches at some stage.

**Ms Fayle**—There is no doubt that what you say about APEC as a mechanism for Australia with its objectives in the region is true. It is at the forefront of our regional policies. It is an organisation where Australia can achieve and pursue a lot of its objectives. I think that is why successive governments have seen APEC as very central in trade policy particularly. A lot of the initiatives that have been ticked off in APEC have been driven by Australian governments.

At the most recent leaders meeting, the trade ministers meeting and then the leaders meeting, a number of the initiatives that were there and were signed off on and announced by ministers and leaders were driven initially by Australia and then Australia brokered support from other APEC members. That is certainly the case with the early voluntary sectoral liberalisation. That is because we saw it in the national interest to try to ginger up the liberalisation process.

As Mr Sparkes said, there is no doubt that the individual action plans were not delivering us everything that we wanted. We saw a need to put some type of focus in the liberalisation agenda that would get us some concrete outcomes and push the envelope out. So we drove early voluntary sectoral liberalisation because of that.

Similarly, communicating the benefits of liberalisation was something we drove in anticipation of domestic political difficulties that ministers and leaders were having with their constituencies and a need to ensure that those did not affect the momentum of liberalisation to our detriment in terms of market opening.

Similarly, the electronic commerce initiative that is a feature of activities this year in APEC is one that Australia drove. Australia put it on the table. Australia drove an agreement. It was not an easy accommodation, even though everyone recognises that electronic commerce is an issue that we need to look at for the future. It is a central issue in how you trade internationally. Nevertheless, there were differences of views about how comfortable various economies were with discussing a lot of the detailed issues about regulation and legislation associated with electronic commerce.

While we had some of the industrialised economies pushing very hard on that, we had a number of the developing economies feeling that they needed a bit more education and information before they made hard and fast decisions in this area. So Australia played a leadership and brokering role in pursuing that particular area of activity.

I think it is fair to say that Australia does continue to play a leadership role in APEC. The reason is that, as you say, it is a most important forum for Australia in pursuing national interests with regard to what is happening in the region. There is no doubt about that.

**CHAIR**—Who should supply the impetus for the momentum? Should it be government, should it be business, should it be academia or should it be a combination of all? We have had a wide range of views expressed to us from those three groups.

**Ms Fayle**—Again, it is fair to say that there has been a bit of an evolution. In the very early thought processes on APEC, there is no doubt that the academics were playing a very leading role. There was a network of leading academics throughout the region who really forced a discussion of Asia-Pacific cooperation upon officials in the very early stages. In the early years it required government officials, ministers and leaders to really give it a push in order to get APEC formed and get broad agreement on some goals for APEC.

As we have moved along, increasingly the private sector role is becoming important. Certainly, the Australian government sees that as the important step that we are pursuing at the moment to get greater private sector involvement into APEC and APEC issues. That is happening in some ways because under the APEC umbrella there is an APEC Business Advisory Council.

However, we have been trying to pursue it at a more detailed level in the sense of discussing our proposals and ideas for sectoral liberalisation with the relevant industries and trying to encourage private sector involvement with the electronic commerce debate, for example, where the private sector is so far out in front of the world's bureaucracies that it would be a mistake not to involve them and have them help drive the agenda forward.

As it has evolved, it has been handed from the academics—the think-tanks—to the bureaucracies and the bureaucracies have decided that increasingly they need to include the private sector. All three areas will continue to play a role, but perhaps increasingly the leadership does need to come from the private sector as well because we are at that stage of the development of APEC as an organisation.

**CHAIR**—I will have some further questions later.

**Senator EGGLESTON**—Have we asked questions about sub-regional groupings?

**CHAIR**—Not to any great extent.

**Senator EGGLESTON**—I would like to ask some questions about sub-regional groupings. First of all, do any of the regional trading groups which have appeared recently—and there have been a number of them—such as the North American Free Trade Area, AFTA which is a new one I gather, EAEC, the European Union or the proposed FTAA pose a threat to APEC? If so, could you explain the nature of the threat and how you see those organisations impacting on APEC's goals and chances of reaching them?

**Ms Fayle**—You are right there are a number of these subregional groupings which have emerged in recent decades, and in some cases much more recently than that. It depends on the nature of a subregional grouping as to whether it has a negative impact on developing freer trade or not. There are some agreements which are organised on a very preferential basis. Australia has some concerns with that, particularly if we are outside those preferential groupings, which is the case with some of these arrangements.

A lot of the thinking behind APEC was really to ensure that as regional liberalisation proceeded, it proceeded on a non-discriminatory basis—that it was not something that was about organising a preferential trading bloc, but rather something that pursued freer trade in a more general way to the good of all concerned. There is an economic theory supporting liberalisation on a non-discriminatory basis over preferential arrangements.

The emergence of all these groupings probably poses a challenge rather than a threat to APEC. It is a challenge that APEC needs to successfully deliver on its liberalisation agenda, because to the extent that we do not deliver on that more non-discriminatory basis, then perhaps these sub-regional groupings will gain greater force and begin to deliver outcomes which are less positive from Australia's perspective.

**Senator EGGLESTON**—A lot of Australia's activities are characterised by multilateral approaches. Would you agree that that is true? Would you care to comment on how the emergence of these various trading organisations is affecting the multilateral approach to trading? Is it undermining multilateralism?

**Ms Fayle**—There is some concern that the emergence of these groups has the potential to undermine multilateral trade effort and, as I said, the theoretical underpinnings of this suggest that the more open and non-discriminatory the liberalisation process is and the more multilateral it is in the sense of the coverage, the better that is for the world economy and for Australia in particular.

There are some rules about regional trade groupings within the WTO. I think it is fair to say that a number of economies, including Australia, have a view that those rules need to be examined and strengthened to avoid the sorts of regional groupings that are likely to be counter-productive and run counter to our objectives in terms of non-discriminatory free trade.

There is, and has been for many decades, a tension between various groupings. I think that tension is not there in the APEC context simply because it is pursuing liberalisation on a non-preferential basis and therefore acts and has acted in a number of areas as a bit of a ginger group for liberalisation that can then be achieved in APEC first and then spread multilaterally through the WTO member countries.

**Senator EGGLESTON**—I would like now to ask you a question about NAFTA. I believe that in 1994 the East Asia Analytical Unit of DFAT stressed that a key determinant of NAFTA's impact on outside countries would be what happens to its external barriers. What has happened to the external barriers of NAFTA? How is it impacting on countries who are part of the APEC group?

**Ms Fayle**—You are probably talking about AFTA, the ASEAN free trade arrangement, rather than the North American one. I am not aware that the East Asia Analytical Unit has done anything on NAFTA, but they did prepare a report on the ASEAN free trade area that did comment, as you say, on its impact depending on the extent to which external barriers changed relative to the barriers within the organisation. I can comment in that regard on AFTA. It is a preferential arrangement and the proposals they have in place do involve

removal of tariff protection for the members of AFTA, the ASEAN economies, at a pace that is faster than they plan to remove barriers overall for the world in general.

I have to say that the indications are that, by and large, when the ASEAN economies have removed or reduced their tariffs they have done so on an MFN basis. In other words, they have done it for those outside AFTA as well as those inside the organisation. So the degree of preferential treatment that is emerging at the moment is fairly minimal, and I think the greater impact has been on investment flows rather than trade flows in the sense that international investors have often been investing in ASEAN in order to get behind the perceived preferential walls that they expect to build up rather than investing in other locations, such as Australia.

So from Australia's perspective we have perhaps suffered some investment diversion but it is very difficult to establish that we have suffered any trade diversion as a result of AFTA, simply because the difference between a preferential treatment and an international tariff has not emerged to a great extent so far.

**Senator EGGLESTON**—Thank you. I did actually think that there was that sort of study done in 1994 in relation to NAFTA as well as one in relation to AFTA. Perhaps my background was not correct. I am not sure. In 1994 there was an AFTA study done I believe by the East Asia Analytical Unit of DFAT, and there was a proposal that the Australian government should consider proposing the establishment of a dialogue between AFTA and CER. Would you like to comment on who initiated the AFTA-CER linkage and how it has developed? What does the AFTA-CER linkage offer the Australian economy? Have there been any tangible benefits so far and, if so, what are they? Does this linkage complement APEC?

**Ms Fayle**—There are a number of issues there. You are right, the East Asia Analytical Unit did prepare a report on AFTA-CER. In fact, I wrote large parts of that report because I was heading up the unit at that time. The recommendation of the report was to pursue AFTA-CER dialogue. The basis of the report indicated that it was in Australia's interest to ensure that AFTA moved in certain directions rather than others, and to establish some economic dialogue with ASEAN. At that particular stage the ministerial level of dialogue with ASEAN was not an economic one but was focused on political and strategic issues.

The AFTA-CER dialogue was initiated by the previous government and has been continued on by this government, and the second ministerial meeting happened last year in October. The dialogue has been occurring at both officials level and ministers level. There have been some agreements in terms of identifying a work program on harmonising certain issues. There is some standards work. I believe there is some work on harmonising customs practices, documenting them initially and becoming aware of customs practices with an aim to some harmonisation. So there have been some outcomes out of that dialogue.

How relevant is it to APEC? It is obviously a subgroup of APEC and within APEC we certainly have discussions with the ASEAN grouping. The extra layer of dialogue that we have with the AFTA members, the ASEANs, is quite useful in pursuing the broader aims that we have in APEC.

**Senator EGGLESTON**—It complements really APEC in the way you have mentioned.

**Ms Fayle**—Yes.

**Senator EGGLESTON**—I am told that Professor David Robertson of Melbourne's business school argues that ASEAN ministers were reluctant to go a bit beyond trade facilitation in the AFTA-CER linkage. Would you agree with Professor Robertson's assessment?

**Ms Fayle**—Yes. The agenda so far in AFTA-CER has focused on trade facilitation issues more than the liberalisation issues. That was partly due to a desire not to overlap with activities in APEC and WTO and other forums. I am not sure it is necessarily because of a reluctance or a resistance on the part of ASEAN ministers, but more a general agreement that those activities were happening elsewhere.

I have to say, however, that there is a desire on both the ASEAN side and the Australian and New Zealand sides at the moment to reassess the AFTA-CER agenda in light of what has happened in the region to consider whether we have the right agenda to go forward. That examination is occurring both in ASEAN and here, as we speak.

**Senator EGGLESTON**—In its submission, the MTIA stated that Australian industry considers that the objective of closer relations between AFTA and CER is to obtain membership for CER of AFTA by 2003. The association maintained there is strong support for CER becoming part of AFTA from the Indonesian Chamber of Commerce and Industry. Would you like to comment on the proposal for CER to become a member of AFTA and relate it to its implications for APEC in Australia?

**Ms Fayle**—The view on joining various regional arrangements, and this would apply to AFTA as well, is that Australia would only do so after a proper assessment of the costs and benefits of joining such an organisation. I think also that the fact that Indonesia would be supportive of this does not mean that ASEAN is actually supportive of Australia and New Zealand, the CER economies, joining AFTA.

My understanding is that you would not get ASEAN consensus and agreement on inviting Australia and New Zealand to join. I guess the point is a moot point in the sense that ASEAN does not want Australia to join some sort of AFTA-CER trading block. We perceive the AFTA-CER dialogue as a way to keep Australia's options open in this regard. We are not pursuing membership of AFTA at this stage.

**Senator EGGLESTON**—Could I ask you a couple of questions about ASEM and EAEC, the East Asian Economic Caucus proposal? Firstly, in its submission to the committee the Research Institute for Asia and the Pacific suggested that the subregional groupings, such as the East Asian Economic Caucus and ASEM, the Asia-Europe Meeting, tend to reinforce what are essentially fading divisions between Asia and Western communities. Do you agree with that point of view?

**Ms Fayle**—That is a very difficult question that probably asks for a personal opinion as much as anything else. The main point is that there are any number of these groupings with

varying agendas. There are a number of subgroupings within the APEC memberships, for example, some of them involving just North American economies, some of them involving just East Asian economies, and some of them just the ASEANs. We have CER involving just Australia and New Zealand. There are a range of these subgroupings within APEC. Some of them focus on trade and economic issues. Others focus more broadly on regional security and foreign policy issues. APEC is a very useful accommodation in that it brings all of these subgroupings together around the Asia Pacific and goals for the Asia Pacific region.

I do not know that any of the subgroupings actually detract in any way from APEC at this stage. They are more likely to be supportive. In fact, you can use the ASEAN subgrouping, for example, to achieve consensus on positions that are being discussed within APEC. We certainly have a policy in the department of using flexible alliances on particular issues. We participate in a number of subgroup meetings within the APEC context to get like-minded economies on side on various issues in order to become a stronger voice within the broader APEC meeting, and we do that with various combinations of economies throughout the area on various issues.

**Senator EGGLESTON**—Professor Richard Snape, who presented paper No. 254 to the Australian-Japan Research Centre in April 1996, has suggested that should frustration grow in Asia with the trade tactics of the United States or with the discriminatory expansion of an American trade bloc, greater interest by north-east Asian economies could be shown in the East Asian Economic Caucus, and AFTA could provide an existing trade agreement basis for development of the EAEC. Would you like to comment on that concept put forward by the professor?

**Ms Fayle**—I am aware of Professor Richard Snape's work. Again, that calls for some personal assessment. I have to say what he is proposing there is one of a number of possibilities which have been posed by various academics working on the region. It is useful to point out that the EAEC has never met. It is a proposal that is around but there has never been a formal meeting of that particular grouping.

So, while we have all these subgroupings in place, if things were to develop in certain ways then yes, it could push development in the region down certain paths. Certainly, if arrangements in North America were seen to be discriminatory they may force some sort of reaction amongst east Asian members in whatever grouping there might be. It is very difficult to predict the future because it is an 'if such and such, then such and such' type scenario, and there are any number of those around, including the ones proposed by Professor Snape.

**Senator EGGLESTON**—EAEC is being pushed by Malaysia and Dr Mahathir, in particular, and his proposal is to exclude Australia from that group, I believe, or it has been reported as such. Do you think that because of the role Australia has played in helping various countries through this Asian economic crisis, in particular Indonesia and Thailand, that perhaps Dr Mahathir might find it more difficult to pursue a policy line to exclude Australia from such groupings?

**Ms Fayle**—Again, it is very difficult to comment on what Dr Mahathir may or may not do. I am aware, however, that the Malaysian government in general has been very positive

about the role Australia has played and the support it has shown in response to the region. That is probably about as far as I can go though.

**Senator EGGLESTON**—Dr Elek, in referring to ASEM, suggested that ‘our grovelling and begging to be allowed in’ is counterproductive and that Australia should be looking to rebuild its credentials to be seen as a natural member and as ‘an asset to have in those discussions’, which I suppose relates to the previous question that I have just asked. Would you like to comment on Dr Elek’s comment? How important is it for Australia to be a member of ASEM and why?

**Ms Fayle**—When he is referring to grovelling to be let in, I assume he is not referring to the EAEC because Australia has never sought membership of that organisation.

**Senator EGGLESTON**—No, it refers to ASEM.

**Ms Fayle**—I am sorry, could you repeat the question?

**Senator EGGLESTON**—His point of view is that we are banging on the door and demanding to be let in, but would it be better for us to take a slightly different sort of policy approach—as we really have, I suppose—and show that we have a strong economy, that we are good managers, and that we would be an asset to a regional grouping? I suppose really that is the gist of what that question is driving at. Would that kind of line be successful? As I said, in a way it relates to the previous question that I asked you, and which you have answered to some extent.

**Ms Fayle**—You have probably answered the question yourself. The sorts of approaches that we are engaged in are very much demonstrating our credentials to be members of these organisations. In terms of ASEM, it is really the case that a number of the existing members of ASEM have actually pursued Australian membership on our behalf. They are very supportive of Australia joining. So it is not so much a matter of Australia grovelling or banging on the door to be let in; it is rather a number of the other members of ASEM seeing benefit in Australia participating and being a member and supporting that view on our behalf. But, yes, part of the strategy is really to demonstrate our credentials to belong to such regional organisations.

**Senator EGGLESTON**—Thank you very much.

**CHAIR**—Ms Fayle, one of the things that was raised on a number of occasions before the committee was that there is a lack of understanding as to what APEC is and what its role is. One witness said that when talking to someone in the community about APEC they said that is the group that put up the swings in the local park. Whilst we might laugh at that, it is very much a reflection of the lack of understanding of APEC.

You did mention earlier today in evidence before us the importance of a broad community understanding and acceptance of APEC, not only here but in other economies as well. It seems to me from the evidence that we have had before the committee that we have not achieved that. There is still a degree of scepticism as to what APEC is, what it should be

doing, and what our role is. Most people, because they do not understand it, adopt the line of least resistance, and that is a negative view.

What do we need to do, if APEC is worth while, to ensure that there is a proper understanding? Given that the educative process is a long running process, and given that there are certain goals to be achieved in particularly the trade liberalisation area, what do we need to do as a government?

**Ms Fayle**—There are a number of aspects to that. Already a lot of work has been done. I agree that the job is not complete. There is not total community understanding or even business community understanding of APEC and its goals. You would be aware that with any government policy it is very difficult ever to achieve that and we still are pursuing that as much as possible. However, in a relative sense the understanding of APEC and its role in the business community is higher than you might imagine. The Bogor goal is certainly one that is well understood when you discuss liberalisation issues with the Australian business community. They may not understand the detail of APEC but the Bogor goal and the fact that Australia has signed on to it is something that the average business person is very much aware of.

Broader community understanding is something, as I said, that is difficult to achieve and something that we continue to work on. We have, in the past, put out pamphlets. These days we put out media kits associated with the various international APEC meetings. This information is now available to be accessed on the Internet on a home page. We also now have a CD-ROM kit, which has been prepared by the APEC study centre, that is available and is being used and purchased by schools, for example, as part of a broader education effort in terms of not just APEC but trade liberalisation in general. So efforts are being made to educate and inform the broader community.

At the business level, as I said, there is a current government policy of involving the private sector more and more in APEC processes. We have an APEC business forum that meets once a year. It is due to meet on 1 May in Sydney. That is part of keeping business informed regularly of APEC—where it is going, what the objectives and outcomes are, and what the Australian government believes we should be pushing for—as well as taking on board business comments and views to help shape government policy.

There is increased interaction with the business community as a result of the sectoral liberalisation agenda and that needs to be built on. I think in general the business community will continue to be sceptical about this until bigger and bigger runs are on the board from the APEC process. The APEC process is a very slow one, as is any regional or multilateral process. It takes a long time but the achievements in the end are ones that can benefit a broader range of the Australian business community, and I think that general concept is understood by many.

**CHAIR**—Whilst you say that is understood, there are still those people out there who, unless they can see some scorecard, just do not believe that the goals are being achieved. We heard evidence during the inquiry that those who liberalise first are going to be best placed to take advantage of the liberalisation in the longer term. But that is no great comfort to

someone who is about to lose their job. It is no great comfort to someone, say maybe on the farm, who is going to lose their income and their livelihood.

How do we demonstrate that there are those broad advantages to the community? I think that is part of the role of what we are looking at in this exercise and in this inquiry. There needs to be some sort of ledger system where you can say, 'There is a debit there but there is a credit there.' No-one seems to have come up with any clear model at this stage that is convincing enough for anyone to understand out there in the community, in a simplistic way, that we are achieving goals through this liberalisation.

**Ms Fayle**—It is a difficult issue and it is one that has now raised, to the APEC community more generally, how to communicate those sorts of issues. The media often report only the negative stories of liberalisation or on a particular industry. It is very difficult to communicate because each audience probably requires a slightly different approach.

As I said, efforts are being made, certainly in the broader APEC context. We were involved in putting together some studies which have now been circulated more widely in the APEC community, really with a business audience as a target. They are about the effects of liberalisation in the textiles, clothing and footwear and IT industries. We can provide copies to the committee if you do not already have them.

In the Australian domestic context, there has also been an effort to prepare some brochures and material—material on the Internet—to do this. But it is not an easy task, because the national interest is not always the same as a particular industry's interest or a particular firm's interest or an individual's interest. Those are very difficult things for governments to manage.

**CHAIR**—We are not sure if we have those documents—we are just checking. If we have not, we would be grateful to receive a copy. In this context, though, I just want to raise with you whatever intelligence you may well have on the response of the NGOs to the Asian economic crisis, given we heard evidence from ACFOA that they were almost the odd NGO out at last year's Vancouver meeting. There seems to be a fairly hostile approach from NGOs to the APEC organisation itself. I am just wondering if that attitude, particularly from the Asian NGOs, has hardened as a result of the Asian economic crisis. Does that pose a threat to the future of APEC?

**Ms Fayle**—There is a range of NGOs around with different views, some of them very specifically focused in certain areas and some of them, as you say, quite antagonistic towards APEC and its aims. The minister has now agreed to a regular dialogue with NGOs in Australia, late in each year, to discuss APEC related or trade related issues. We are always available in the department for NGOs that wish to discuss those things with us.

I think, more broadly, there is not a consensus within APEC on how to include NGOs in APEC processes. There is still some way to go to work towards that. Different APEC economies have different views on the degree to which we should and need to consult with NGOs and then which NGOs. I think there is a variety of approaches evident amongst APEC economies on that particular score. Certainly from Australia's perspective there is now a policy of increasing the regularity of dialogue with NGOs on these issues.

**CHAIR**—I accept that. I was looking not so much at what was happening with Australian NGOs, but with NGOs in those economies that have been affected by the Asian crisis. I am just wondering if there is any hardening in opposition on their part. The evidence that we have—it is fairly limited evidence, I must admit, but it is fairly strong evidence—is that there was a concerted disregard to APEC and the way it was affecting the lifestyle, livelihoods and social fabric in some of their economies. I am just wondering if you have got any intelligence about the Asian crisis. If you have not, maybe you can take it on notice and see if there has been any shift in their attitudes, whether it be positive or negative.

**Ms Fayle**—I do not have any detailed evidence, so I will have to take that on notice to some extent. But there have been certain news reports in newspapers in the region which suggest that NGOs who have particular views about the dangers to people's welfare of trade liberalisation or other economic development objectives are capitalising on what has happened in the region and laying blame on certain economic development objectives for some of the pain that is being experienced by societies in those affected economies.

So I think, rather than changing the views of some of those NGOs, for some of them it has perhaps been used to reinforce their arguments. They are louder with their arguments, using what has happened in the region as leverage for putting those points of view more generally to the public. There is evidence of some of that, but I do not have a comprehensive view of how much that is happening and which NGOs are involved.

**CHAIR**—The other thing that I want to raise is the Pacific Economic Cooperation Council. We did have some evidence on this before us. How important is the Pacific Economic Cooperation Council in APEC? I understand that it was in many ways the forerunner of APEC itself. Is it still relevant? What should it be doing in the current APEC environment?

**Ms Fayle**—Certainly the PECC forum is older than the APEC one. It was there and was talking about Asia Pacific economic cooperation issues in advance of APEC forming. It is, I think, perceived as still playing a very useful role as a think-tank on these sorts of issues, because it does wrap in academic and business views. A lot of the research, the work, the preparation of reports and the conferences that happen under the PECC umbrella are very useful in pursuing APEC objectives. PECC is usually represented at APEC meetings and I think it continues to be a very useful grouping and a useful resource for APEC member economies to call on in terms of some of the thinking and research that needs to back up our efforts.

**CHAIR**—What about the role of AUSPEC? As I understand it, the individual economies break down into subgroupings such as AUSPEC. Could you elaborate on the role of AUSPEC?

**Ms Fayle**—AUSPEC is the Australian contribution; the membership to PECC. I guess it is something that the government has fostered in its initial stages, with a view to it becoming a little more independent and self-funding over time. It makes a useful contribution to PECC as an organisation, which is in turn very useful in the APEC context.

**CHAIR**—I am glad you mention the issue of funding, because that is what I was really leading to, as you no doubt realise. We had evidence from Dr Findlay in Adelaide in respect of funding. He pointed out in evidence to us that Foreign Affairs and Trade supported that secretariat and it was a substantial amount of money. I believe he said that they were operating on a budget of about \$100,000-plus a year for the purposes of running the secretariat. He went on to outline in his evidence that that covered office infrastructure, staff time, travel and participation in key PECC management meetings and the contribution to what is called the PECC central fund, which PECC itself uses to support its regional activities. The evidence went on to say that that is like the club membership fee of the whole organisation.

As I understand it, funding has been withdrawn progressively from PECC. But I also formed the view, from the evidence that was presented to us, that AUSPEC had very few means of supporting itself outside of the funding that was being provided by DFAT. It would also seem to me that unless there is ongoing support then the nature and the value of the work in particular that is being done by AUSPEC might be placed in jeopardy. Could I have a response, please?

**Ms Fayle**—I will hand over to Phil Sparkes in a minute. We have stopped not funding for PECC but the funding for the AUSPEC part of it.

**CHAIR**—Yes, I understand that.

**Ms Fayle**—That is simply part of cutbacks taken in a general budgetary context. I will ask Phil Sparkes to fill in a little bit of the detail.

**Mr Sparkes**—There is not very much more I can add. Clearly, Christopher Findlay and his team were not happy with having funding from the department stopped, in the context of a general review of government contributions to organisations. The point is that it has survived that withdrawal of funds and is continuing to operate, as far as we know, successfully. They have had to amalgamate their secretariat with that of PBEC and so it continues to function.

In terms of a threat to its ongoing work of relevance and importance to APEC, this is a very active group of academics and a very active network, and they keep coming and talking to us about particular projects they are interested in. Where we can, we support those individual projects and, as far as we are aware, there is no immediate threat of that useful activity declining as a result of our decision to remove funding of the AUSPEC secretariat.

**CHAIR**—To me, it did come across in the evidence that it is an academic think-tank and quite different from the business community. It does not have the advantages of getting its various partner groups to put money into the whole process. It would seem to me that if we are to be serious about APEC and our ongoing role in APEC there would be real implications for us if this valuable think-tank were to suffer its demise because it ran out of money.

**Mr Sparkes**—I agree that it would be unfortunate if that were to happen. All I am saying is that there are no signs yet that that is happening. For instance, the two publications which Ms Fayle mentioned earlier—which we had prepared in a wider APEC context in

terms of promoting the benefits of trade liberalisation—were in fact done by Dr Findlay. That was done through part funding by this department but also through the AusAID APEC support fund. I guess I am saying that there are other ways of finding funding in the system other than being centrally funded in terms of the secretariat.

**CHAIR**—I understand that, but the evidence that we had—and this is why I am so concerned—went to things outside of that framework, such as infrastructure costs, staff time and travel, which they cannot raise from other sources. Whether or not it be through direct grants from you to do a specific project, this is the umbrella approach that they are looking at in the holding together of AUSPEC. I think it may be worth while if some investigation were made into that by you. It is obviously up to you, but it seems to me that it is a very worthwhile group.

We are fast running out of time, so I will pass across to Senator Lightfoot, who has a few questions that he would like to ask.

**Senator LIGHTFOOT**—I would like to direct a question to Mr Potts, in his capacity as the Assistant Secretary, Trade Policy Issues and Industrials Branch, and I assume that my questions will fit the particular model that you represent, Mr Potts. Have the financial crises in the four countries that we mentioned this morning—South Korea, Thailand, Indonesia and Malaysia—had a negative effect on liberalisation of investment as opposed to trade? If so, how has that manifested itself?

**Mr Potts**—Thank you, Senator. I think it is fair to say that the crisis, in a sense, is still working its way through. It has proceeded at a different pace, economy to economy. In Thailand, for instance, I think they are well on the way now to working their way through the issue. I think the same comment would apply in Korea. Certainly, Malaysia and particularly Indonesia have not gone through that process as quickly.

In terms of the attitude of those countries to, if you like, direct foreign investment, I think in many cases it has probably reinforced the perception in those countries of how important a role foreign investment has played in their own economic development.

I think you will find that you do have some discordant noises. It has certainly been the case in Indonesia that there has been a degree of commentary on the margins, no doubt fortified to some extent by the political manoeuvrings around the presidential election and so on. There have been some noises that have queried the value of foreign investment and a perception that maybe the way to go is to do it through your own national resources. But I think that is very much a minority view, and I think generally those four countries remain investor friendly destinations.

**Senator LIGHTFOOT**—In terms of the flow of dollars from Australia to, say, Indonesia, that has been somewhat protracted since perhaps last July when it first became apparent that there were big problems there.

**Mr Potts**—Yes. I think if you are looking at our outflows to those countries, there would be a reassessment on the part of Australian investors as to whether, in particular, this is the right time to be investing. Investment decisions always have fairly long lead times. So I

think it will take some time for that to materialise in figures. But anecdotally, certainly, there is evidence that Australian companies are holding back from taking key investment decisions in at least some of those economies.

**Senator LIGHTFOOT**—So rather than lead time, it is a reluctance to invest. So putting lead time to one side, is there a distinct reluctance at this stage to invest?

**Mr Potts**—No, I do not think it is a reluctance to invest. I think it is more a reluctance to invest at the moment, until they see how the countries work their way through their respective situations. It is a degree of hesitancy, I think, rather than a definitive negative response.

**Senator LIGHTFOOT**—In view of the fact that the rupiah went as low as 17,500 rupiah to the American dollar—I think it stabilised relatively at 10,000, although it is fluctuating on a daily basis—and came from a relative high of less than 2,000 and considering the fact that the real estate businesses and other capital intensive structures are still the same in their proportions, does that not in fact make it attractive for investment, at least on paper?

**Mr Potts**—I think in some cases, certainly. The exchange rate is obviously part of the calculation. I think also it is a factor or will be a factor in some of the economies that there will be asset sales that will be of major interest to investors. In the case of Thailand, in particular, there is likely to be a fair degree of divestiture of government assets. So yes, I think that in many ways the picture is quite mixed. On the one hand, you have this natural hesitancy because you have got events which have moved fairly quickly. But on the other hand you have got some aspects which are quite positive for investors. That is why I spoke of hesitancy, rather than a negative view. I think most business people are trying to judge what balance to give the different factors.

**Ms Fyale**—Senator, if I could just add to that, I think the issue probably for most business people, Australian business people included, is one of timing—of buying in at the right time at the bottom. In a lot of cases, the general perception is that they are still watching it to identify the right time rather than jumping in there to take advantage of what, as you say, are already bargains. There is also a greater requirement because of the greater risks in the region at the moment to do due diligence so there is a lot of that going on, on the part of Australian businesses as they are monitoring certain possibilities for buying in at cheaper entry prices.

**Senator LIGHTFOOT**—I guess, Mr Potts, if you took the example of South Korea, which has for its wealth base secondary industry rather than primary industry, on which Indonesia is still reliant, investment would seem not to be in the national interest. If I could put on another cap rather than Australia's: the fire sale of assets in any of those four countries may not be in the national interest at the moment.

We have already seen the American dollar conversion come down from 17,500 to 10,500, or thereabouts, and had some national assets been sold at the conversion rate of 17,500, that would have been viewed, in retrospect at least, as being irresponsible. Do you think that that contributes to the reticence of investment in those four countries which share

similar currency problems or are the governments of those respective countries eager to some degree to still take and accept foreign investment in order to get foreign exchange?

**Mr Potts**—I suppose the bottom line, in a sense, is that governments in the affected economies are anxious to try to work their way through the whole issues. I think you have to look at economic recovery as a package, in a sense. I am not sure that you can isolate asset sales, say, from other elements of a recovery strategy.

It is certainly the case I think that the timing of asset sales is crucial. In all the cases, to my knowledge anyhow, asset sales have not been a first tranche of a recovery process; but it has been a little further down the track, when things have perhaps stabilised, that asset sales have been looked to. That has certainly been the case in Thailand. I mentioned earlier that Thailand was working its way through the issue perhaps at a more advanced stage than, say, Indonesia. I think asset sales tend to happen when things have settled down.

The bottom line, I guess, is that we have seen little, from a government level, to suggest that the governments of the countries are less eager for foreign investment. In fact, I think it is to the contrary—it has brought home to them their reliance on foreign capital to finance development.

**Senator LIGHTFOOT**—But, nonetheless, it is a temporary aberration with respect to some investment in the countries we have mentioned?

**Mr Potts**—What is a temporary investment?

**Senator LIGHTFOOT**—Is it a temporary aberration that there is a reluctance of national governments in the countries that we have mentioned to accept investment in some areas because of the fire sale nature of those assets?

**Mr Potts**—I do not think there is a reluctance of governments to accept foreign investment. I think if there is any reluctance it has been seen more in public comments by some political figures normally outside government who are saying, ‘This is not the right time. We need to do more from our own resources.’ But I think the government viewpoint in the four affected economies is still very pro-investment.

**Ms Fayle**—They have all made policy changes, as part of their IMF packages, that open up the market even further to foreign investment, that allow greater foreign ownership in certain sectors. A number of changes in Korea, Thailand and Indonesia actually free up the environment for foreign investment so the general government policy framework is even more welcoming than it was before the crisis.

**Senator LIGHTFOOT**—But there is still a reluctance in Indonesia to agree to some of those IMF guidelines; is that correct?

**Ms Fayle**—Yes. But I am not sure those are all in the investment area. Some of them may well be. There is certainly a reluctance in the other economies with regard to certain proposals by the IMF. It is a matter of dialogue between the IMF and the governments as to what ultimately goes into the packages and what areas are included and excluded. Ultimate-

ly, the IMF is interested in the overall macro-economic impact of those changes. If a government can suggest something else that will achieve the same thing, the IMF will usually listen to that proposal.

**Senator LIGHTFOOT**—We certainly hope that dialogue continues. Mr Potts, with respect to the multilateral agreement on investment, there is some information that has a valid base that it may not be in the interests of, say, Australia—one would assume, if it is not in the interests of Australia, it would not be in the interests of APEC countries—that is, that an extrapolation of that agreement may be that it would weaken Australian governments, indeed all national governments or sovereign governments, with respect to multinationals being able to sue those governments whose laws inhibited or prohibited multinational investment and expansion. Do you have any comment on that?

**Mr Potts**—Probably not too much, Senator. The first thing is that it is not this department—we are not responsible for the negotiation of the MAI—it is the responsibility of Treasury. Treasury officials are in fact those who are participating in the negotiations in Paris for MAI. We are talking in a sense also about a text which is still evolving and it is not easy to look at it.

**Senator LIGHTFOOT**—Is it evolving in the OECD or is it evolving in APEC?

**Mr Potts**—It is evolving in the OECD.

**Senator LIGHTFOOT**—How does that extrapolate then to APEC? Can it be, in fact, transferred to APEC as a beneficial agreement?

**Mr Potts**—That remains a possibility. The point is that in a sense we have to see where the MAI negotiations end up. At the moment of course there is a text and there is a lot of commentary on it, but until there is a final agreement—and I would emphasise that is certainly some way off on present indications—it is difficult to form a view on how the whole text stands up. If the MAI attracts substantial support in the OECD, then there is a presumption that its principles will work their way through, certainly to APEC economies and also to the WTO members as well.

**Senator LIGHTFOOT**—And other non-OECD countries?

**Mr Potts**—I think so. That is certainly a possibility.

**Senator LIGHTFOOT**—So how does that relate in terms of OECD investment in so far as some APEC members are in both? Is it going to be a positive move for APEC members, remembering it is still in this sphere of the OECD rather than APEC?

**Mr Potts**—The real answer to that is that it depends on the outcome of the negotiations. They are at a moot stage at the moment. There is a decision point coming up at the end of April when OECD ministers meet in Paris and they take stock of the MAI negotiations. It is certainly some further distance away before there is any likelihood of agreement on the whole text of the MAI and it is only at that stage that one can form a judgement on how it

is going to mesh through to the APEC economies or to those APEC economies that are not already OECD members.

**Senator LIGHTFOOT**—If I could retrogress from my last question, I assume then that the MAI has been a specific part of the APEC agenda at some stage. I am happy for any of your colleagues to answer that.

**Ms Fayle**—No it has not been. The MAI negotiations have been going on in the OECD context and APEC members are aware of them. Certainly as you point out, some economies are members of both OECD and APEC. However, the discussion in APEC about investment has been focused more on some non-binding principles on a voluntary basis that APEC economies can sign onto. The objective in the OECD negotiations is much more specific and much more in the nature of pushing the envelope out. The OECD is a framework which is much more likely to achieve that in the sense that it is made up of industrialised economies by and large at the same sort of level of development.

In the APEC forum, it is much more difficult to achieve agreement on very specific investment related issues at this point in time. So we have a set of non-binding voluntary principles that APEC members have signed on to. There is no direct link between the MAI and the APEC processes on investment at this stage.

**Senator LIGHTFOOT**—Thank you. That is a very specific answer.

**CHAIR**—Thank you, Senator Lightfoot. Obviously, we have run over time and there are a substantial number of questions which this committee wishes to put to the department in view of the evidence that we have received. We will arrange through the secretariat for those to be passed on because having an answer to those questions will be quite helpful to us in formulating our report.

I thank the officers of the department for attending today and answering fully and frankly the questions that were put. This concludes the formal hearings of this committee.

**Committee adjourned at 12.25 p.m.**

