



COMMONWEALTH OF AUSTRALIA

JOINT STANDING COMMITTEE

ON

**FOREIGN AFFAIRS, DEFENCE AND TRADE
(Foreign Affairs Subcommittee)**

Reference: Relations with ASEAN

CANBERRA

Friday, 24 October 1997

OFFICIAL HANSARD REPORT

CANBERRA

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
(Foreign Affairs Subcommittee)

Members:

Mr Taylor (Chairman)

Mr Barry Jones (Deputy Chairman)

Senator Bourne	Mr Bob Baldwin
Senator Chapman	Mr Bevis
Senator Ferguson	Mr Dondas
Senator Harradine	Mrs Gallus
Senator MacGibbon	Mr Georgiou
Senator Reynolds	Mr Hollis
Senator Schacht	Mr Lieberman
Senator Troeth	Mr Leo McLeay
	Mr Nugent
	Mr Price
	Mr Slipper
	Dr Southcott

Matter referred for inquiry into and report on:

The development of ASEAN as a regional association in the post Cold War environment and Australia's relationship with it, including as a dialogue partner, with particular reference to:

- . social, legal, cultural, sporting, economic, political and security issues;
- . the implications of ASEAN's expanded membership;
- . ASEAN's input into and attitude towards the development of multilateral regional security arrangements and processes, including the ASEAN Regional Forum (ARF);
- . ASEAN's attitudes to ARF linkages with, or relationship to, other regional groupings;
- . economic relations and prospects for further cooperation, including the development of the ASEAN Free Trade Area (AFTA) and possible linkages with CER;
- . development cooperation; and
- . future prospects - in particular the extent to which the decisions and policies of ASEAN affect other international relationships.

WITNESSES

BALL, Professor Desmond John, Co-Chair, Australian Council for Security Cooperation in Asia Pacific, Strategic and Defence Studies Centre, Australian National University, Canberra, Australian Capital Territory 2600	578
BROOME, Mr John Harold, Chairperson, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001	567
DOUGLAS, Mr Bryan John, Deputy Director, Australian Electrical and Electronic Manufacturers' Association, GPO Box 1966, Canberra, Australian Capital Territory 2601	592
GOSMAN, Mr Alex, Executive Director, Australian Electrical and Electronic Manufacturers' Association, GPO Box 1966, Canberra, Australian Capital Territory 2601	592
McDONELL, Mr Patrick Gregory, Head, Asia-Pacific Secretariat, Financial Action Task Force and Asia-Pacific Group on Money Laundering, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001	567
McFARLANE, Mr Alastair John, Special Adviser, Office of Deputy Commissioner, Australian Federal Police, GPO Box 401, Canberra City, Australian Capital Territory 2601	567
PURNELL, Mr Leigh, Director, National Office, MTIA, MTIA House, 214 Northbourne Avenue, Canberra, Australian Capital Territory 2600	599
SHERIDAN, Mr Gregory Paul, Foreign Editor, The Australian Newspaper, 2 Holt Street, Surry Hills, New South Wales 2010	614
STOECKEL, Dr Andrew, Executive Director, Centre for International Economics, 88 Northbourne Avenue, Canberra, Australian Capital Territory 2601	630
WHIDDETT, Mr Adrien Melville, Deputy Commissioner, Australian Federal Police, PO Box 401, Canberra City, Australian Capital Territory 2601 ..	567

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
(Foreign Affairs Subcommittee)

Relations with ASEAN

CANBERRA

Friday, 24 October 1997

Present

Mr Taylor (Chairman)

Mr Hollis

Mr McLeay

Mr Sinclair

Dr Southcott

The subcommittee met at 8.45 a.m.

Mr Taylor took the chair.

CHAIRMAN—I re-open this inquiry into Australia's relationship with ASEAN. As I have indicated in previous hearings, it is appropriate that we should be carrying out this inquiry in this, ASEAN's 30th, year, particularly with the change in membership—question marks over Cambodia and the new entrants—and the large two-way trade. We have already taken evidence in Canberra, Sydney, Melbourne, Brisbane, Perth and Darwin on those issues. Today, we are taking some final evidence in the area of security, trade and political issues. I wanted to point out to you that this subcommittee does not insist on swearing or affirming witnesses, but I do not have to point out to any of you that these are proceedings of the parliament and everything that goes with that applies.

BROOME, Mr John Harold, Chairperson, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001

McDONELL, Mr Patrick Gregory, Head, Asia-Pacific Secretariat, Financial Action Task Force and Asia-Pacific Group on Money Laundering, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001

McFARLANE, Mr Alastair John, Special Adviser, Office of Deputy Commissioner, Australian Federal Police, GPO Box 401, Canberra City, Australian Capital Territory 2601

WHIDDETT, Mr Adrien Melville, Deputy Commissioner, Australian Federal Police, PO Box 401, Canberra City, Australian Capital Territory 2601

CHAIRMAN—We have had some background papers from you, but not a written submission. If there are occasions when you would like to go in camera, we can accommodate that. Ideally, we would like to keep it on the open record, but if the circumstances dictate you will understand we are quite happy to go in camera. Would you like to make an opening statement?

Mr Broome—There are just a few short opening comments that I will make. I will foreshadow making available with the comments some additional documents, which we have brought with us, which might assist the committee. In relation to the point about a closed session, there are a couple of matters I would like to raise in that context. They have some sensitivity both in operational senses and in relation to some diplomatic issues which have involved our work with the Asia-Pacific group.

CHAIR—Would you be happy to do that at the end?

Mr Broome—Yes, I think the sensible thing would be to do that at the end of the session. That should not take long. There is some information which I think the committee would find useful, but which, for obvious reasons, I think we ought to treat as confidential.

The committee is obviously aware of the background to the international anti-money laundering efforts and Australia's participation in them. You have had evidence and an extensive submission from the Attorney-General's Department. I want to touch on those very briefly and concentrate much more on the practical issues and the steps that are being taken, especially in the Asia-Pacific region.

I appear before the committee in a few capacities; one is as Chairperson for the National Crime Authority. In that role, I have responsibility for investigating some organised crime matters, including quite extensive money laundering issues. The other is as co-Chairman of the newly established Asia-Pacific Group on Money Laundering, the

APG. Also I appear as Chairman of the Financial Action Task Force's ad hoc group on the Asia-Pacific. I come with a number of hats.

The Financial Action Task Force was a creation of the G7 group of industrial nations which followed from a G7 leader's summit in 1989. It was considered that the problems of money laundering had gone beyond being an issue of law enforcement alone and had reached such proportions that it was capable of affecting the economies of some countries. That is the point I want to come back to. It was estimated at that time that approximately \$US300 billion was possibly being laundered from narcotic sales alone. That estimate, at least by some, is in the order of \$US500 billion and, according to the IMF, an amount of that order would represent about two per cent of global GDP.

If the proceeds of offences other than narcotics, for example major fraud, were included then this figure would probably be doubled, but again we are dealing with figures about which we do not know the outer bounds, obviously. The G7 summit decided that an international task force was required to deal with the issue and the Financial Action Task Force was created. Its membership now consists of 26 countries, including Australia, most of whom are OECD countries. As you would be aware, Australia has been a major participant in the work of the FATF from its inception.

Its first task was to determine what steps ought to be taken to deter and detect money laundering. The result of the initial work of the task force was the publication of 40 recommendations—what are now universally known as the FATF 40 recommendations. They cover three basic areas: legal, financial and regulatory, and law enforcement. After a review completed in 1996, the 40 recommendations were updated.

In the legal area, the first step is to ensure that money laundering is a criminal offence and that there are legal measures in place to permit mutual legal assistance, the confiscation of laundered property and extradition. From the law enforcement perspective, they are obviously the issues of central concern not only to us but also to the AFP. In the financial and regulatory area, there must be a prohibition on anonymous accounts and procedures within financial institutions to identify and report suspicious transactions. In the law enforcement area, there must be a capacity for assistance to other countries in relation to the investigation and prosecution of money laundering matters.

The 40 recommendations have now been implemented in their entirety in almost all of the FATF member countries, and those countries have undergone fairly rigorous examinations of how they are implementing the recommendations that they have been putting in place. Not only within FATF, but also more widely, the recommendations had been accepted as the global policy standard for anti-money laundering measures, including by the Commonwealth heads of government, various UN agencies and so on.

Following on the work from within its own member countries, FATF began an external relations strategy, the aim of which was to try to have the 40 recommendations

accepted and implemented throughout the rest of the world. This strategy was pursued by supporting the establishment of autonomous regional bodies so that those bodies could themselves progress anti-money laundering efforts in their respective regions. In 1992, a Caribbean financial action task force was established and more recently there have been moves to establish regional bodies in central and eastern Europe under the auspices, in the large part, of the Council of Europe, in Africa as well as in the Asia-Pacific region where we have been involved.

Like FATF, it was not intended that these bodies become permanent organisations, rather that they exist for a set period in order to facilitate the introduction and implementation of anti-money laundering measures in their regions. In 1995, within the Asia-Pacific region, a financial action task force was set up in Sydney. Its idea was to promote the acceptance and adoption of the recommendations in those countries in our region which were not members of FATF. It also aims to promote and maintain contact between relevant people in the legal, financial and law enforcement areas within the region for any money laundering purposes and to coordinate and, in some cases, provide assistance in anti-money laundering training. Mr McDonell is the head of that secretariat.

As part of its work, the secretariat has organised several money laundering symposiums attended by senior officials from every jurisdiction in the region—and the attendance has been very wide ranging. The most recent symposium was held in Bangkok in February this year and resulted in the establishment of a regional group to be called the Asia-Pacific Group on Money Laundering. I should say the Department of Foreign Affairs and Trade, in particular, and through its own overseas posts, has been particularly helpful to our efforts. They have provided a great deal of support to us in this work.

The secretariat was initially funded by an allocation of \$225,000 a year for three years from the confiscated assets trust fund. That pays for the salaries of two staff as well as travel and administrative costs. Those funds have since come to an end because the three-year period is up, but subsequently there has been funding made available from a number of countries, and I will refer to those in a minute.

At the same time, the Reserve Bank has recently seconded a senior officer of the bank to the secretariat for 12 months at the cost of the Reserve Bank. I think that is a very good indication of the importance which the bank attaches to these matters in the region. You never get anything free from a bank, so there is obviously something in it from their perspective as a major initiative in the region.

In addition, there is also a commitment and involvement in this work from the IMF and the World Bank, and certainly most central banks are seeing this now as a central issue. The budget for the secretariat is still somewhat tenuous but, for the next 12 months at least, we are working on the basis of contributions from the United States, Japan, Hong Kong, Singapore, New Zealand and the United Kingdom. Clearly, we are looking to get a greater regional involvement in funding of the activity and possibly some additional

funding from the Australian government, bearing in mind the very significant contributions that were made to start with.

One aspect of money laundering which is clear is its increasingly global nature. This trend has been developing over the past few decades, along with globalisation of crime in general. The development of global markets for illicit goods and services, the revolution in modern technology—in particular, communications and transportation—the deregulation of financial systems and the reduction in border controls, and the emergence of new market oriented economies have all meant that criminals have developed a capacity to operate on a truly worldwide scale. This has also meant that debts can be incurred and profits generated across international boundaries necessitating the movement of criminal funds internationally.

The trends in globalisation that I have just mentioned have also provided benefits for the criminals in laundering the proceeds of their criminal activity. The much larger volume of legitimate capital moving at any one time in the world and the rapidly reducing official controls on the movement of those funds have made it possible for large amounts of proceeds of crime to enter world markets without attracting much attention. The increased need for criminal enterprises to use international funds transfers has also made them aware of the benefits of moving the funds internationally to disguise them, effectively disrupting audit trails as law enforcement is stymied by jurisdiction and legal boundaries. In addition, the growing diversification of international financial instruments and the differences in controls in regulation between countries has provided those wishing to disguise funds with ample opportunity to do so.

As a consequence of these changes, money laundering is not just a problem for the world's major financial centres or, indeed, the lightly regulated offshore havens. No country which is integrated into the international financial system is going to escape the attentions of the launderers. With the dismantling of exchange controls and the growing interpenetration of financial markets, access to one country's financial institution allows worldwide mobility of capital. As more advanced financial centre countries tighten their controls—and the developments in the Caribbean are a classic example of where there has been a response to this concern—those states with developing financial sectors are of course more attractive, particularly as their domestic currencies become convertible and old regulations and controls are lifted.

None of this is to argue that economic and financial deregulation is undesirable. I am not suggesting that for one moment. Rather it is to point out that, in a rapidly deregulating world, there should be systems put in place to identify criminal funds without restricting the legitimate economy. The IMF and the World Bank have stated that this is not only consistent but necessary in modern financial systems. The anti-money laundering measures presently being used in many countries provide a means for achieving this outcome. Legitimate commerce should have no fear of such measures. In a private session, I can give you some quite explicit examples of the kinds of activities we are dealing with

which will show you what is possible and, indeed, how easy sometimes it can be.

In order to make progress, however, political commitment in the region will be essential. In this regard, the secretariat in consultation with the US Treasury Department was successful in obtaining APEC endorsement for these initiatives. The joint ministerial statement of the APEC finance ministers following their meeting in April 1997 included the following paragraph:

Money laundering remains a priority concern because of the threat it can pose to the integrity of legitimate financial institutions. In this regard, we welcome the establishment of the Asia-Pacific Group on Money Laundering of which several APEC economies are members. We pointed out however that money laundering is a global phenomenon and in this regard, we encourage all other economies to join in a determined global effort to effectively address it. We ask the assistance of the relevant international organizations to integrate support for anti-money laundering activities in their operations to strengthen the integrity of financial systems.

In addition, the ASEAN secretariat has taken an interest in the issue and was represented at the Bangkok symposium. There has been subsequent discussion with the senior member of the ASEAN secretariat in recent times. We see this connection as likely to increase.

While there is no instant panacea to the money laundering problem in our region, I think a good foundation has been laid with the establishment of this group, and Australia in my view has gained significant kudos as a result. We are seen to be a genuine leader in the region in this area. We are seen to be an honest broker. We are seen to be providing a substantial contribution to the work in the region. It is interesting to note that Japan will assume the presidency of the FATF next year and is itself a very strong supporter of the Asia-Pacific group. The next meeting of the group will in fact be in Tokyo in March next year.

That is just a brief background of what we are doing and why we are doing it. We can obviously expand on it with some questions. I have a series of documents which I will provide to the committee.

CHAIRMAN—Would you like to read those into the evidence so we can include them as exhibits.

Mr Broome—The documents include a copy of the Financial Action Task Force on Money Laundering 40 recommendations, they are the 40 recommendations; the Asia-Pacific Group on Money Laundering Terms of Reference, which were adopted in Bangkok on 27 February 1997; the Summary of Proceedings from the Fourth Asia-Pacific Symposium on Money Laundering in Bangkok in February 1997, which includes, as well as the summary of the proceedings, the report of the legal and judicial workshop, the report of the financial workshop and the report of the law enforcement workshop; a document entitled 'Money Laundering Methodologies and International and Regional Countermeasures', which was a paper prepared for the Council for Security Cooperation in

the Asia-Pacific region—CSCAP—for its study group on transnational crime which met in Bangkok on 10 and 11 October 1997, and Mr McDonell was at that meeting and presented the paper; an International Monetary Fund working paper by Vito Tanzi, entitled ‘Money Laundering and International Financial System’; and, finally, a document from the International Monetary Fund working paper series by Peter Quirk, entitled ‘Macroeconomic Implications of Money Laundering’.

In respect of that last document, I might say that this presented a bit of a sea change. Here was the IMF actually seeing these issues not as law enforcement issues but as core issues for financial markets and financial systems. Indeed, in most jurisdictions in the US, the UK, most of Europe and certainly in some of the Asian economies, money laundering is seen very much as a financial systems issue. It certainly has law enforcement implications, but the concern—particularly in small economies—that a relatively small amount of laundered funds can destabilise the economy is well recognised, particularly in the Pacific. In some of the other countries, if banks and financial institutions are prepared to engage in quite organised money laundering, it raises fundamental questions about their credibility as financial market players, about their neutrality, about their transparency and so on.

That is why the issue has developed and is reflected very much in the attitude of the Australian Reserve Bank, which in the last three years has taken a very high interest in the issue to the extent it is pushing the issue within Reserve Bank or Central Bank forums in the region. Indeed, as I said, it has recognised the work by providing a full-time staff member for the next 12 months. So with those introductory comments, I will be quiet and let you ask some questions.

CHAIRMAN—Let me just ask some general questions, firstly, on the drug trade and, secondly, on money laundering. On the drug trade, and we will get into some of the specifics more appropriately in a closed session, how constrained is the NCA or the AFP in terms of staffing and budget?

Mr Broome—In a word, the NCA is significantly.

CHAIRMAN—And that is a global thing rather than a specific sectoral thing?

Mr Broome—The simple fact is that the size of the problem is obviously very significant. We could very effectively use significant increases in resources. We fully understand the budgetary position and we understand that the government makes decisions and we live with them. I am sure Mr Whiddett can speak for the AFP but, from our point of view, there is obviously a capacity for more resources to be deployed. In drug work in particular—particularly the kind of work that we are involved in with importations and major distribution—you are dealing with people who are sophisticated and have a lot of opportunities to undertake the activities they are engaged in. The profits are very substantial and therefore people are prepared to take very significant risks. Whether it is

surveillance, general manpower or whatever, they are very resource intensive areas to deal with, so clearly there is an issue there.

That said, we have very much tried in recent years to provide a coordinating role; a role which tries to bring other agencies together, Commonwealth and state, within task forces established under the National Crime Authority Act. In that way you get the benefits of a national approach. We are not out there as the sole or even the main player; we are out there coordinating work under our references and using our special powers to augment broader investigations. But clearly there is some considerable capacity for growth—that is one way to put it.

Mr Whiddett—I would like to read something onto the record in terms of context. On the question of resources, there will never be enough for law enforcement because the length of string is unknown. But the reality is, as Mr Broome has said, that we are probably in the worst position we have been in for a number of years to tackle major organised crime. That is simply because although we understand completely the importance of government initiatives in relation to budgets, the reality is that the game is getting more difficult. The nature of crimes that surround the drug traffic and other forms of organised crime are now significant. They are prosecuted by exceedingly sophisticated, well resourced people and, in turn, the action that needs to be taken by police law enforcement both here and abroad requires major coordination and protractedness.

The reality is that penetrating groups, dismantling groups and seizing drugs does not occur within one hour, less ads, as we see on television. The reality is that some of our operations take two to three years before they mature into something. Indeed, in some cases operations mature to nothing—they evaporate—because, after all, intelligence is fluid and situations change. It may well be that the people at the other end have decided that it is too risky or there have been difficulties. But increasingly, because of the globalised nature of the problem, international cooperation is absolutely vital and Australia must play a credible part.

CHAIRMAN—The bottom line is: are we going backwards or are we barely keeping pace? I am just talking about drugs at the moment. Is that too simplistic a question?

Mr Whiddett—No, it is an awkward question on the basis that there is little empirical data on the size of the drug problem and the size of the user population in a variety of countries. A lot of data is not that reliable. But I think, based on the information we have, the problem is deepening worldwide. There are more drugs being produced, therefore more being circulated. While seizure rates are going up, that does not mean to say we are getting better; we are just seizing more drugs of an unknown quantity. But, given that the tonnage in 1996 worldwide was something of the order of 360 tonnes and there is a prediction that Australia's habit in heroin, for example, is about two to four tonnes, we are not really certain that we are doing much better than 5 to 10 per cent, and

that might even be optimistic—no-one really knows.

CHAIRMAN—Okay. I have a question about money laundering, putting on my other hat as Chairman of the Joint Standing Committee on Treaties. We recently dealt with at least one that I vaguely recall, maybe two, bilateral treaties or agreements. Is that what your group, Mr McDonell, is dealing with in the Asia-Pacific region? Would it finish up that we would have a series of bilaterals in terms of money laundering, or what?

Mr McDonell—No sir. The group that we are trying to form now is in nascent formation with 13 jurisdictions. It is not a group that is subject to treaty. It is one of cooperative agreement between the countries concerned. We do, of course, and will necessarily, take account of the relevant international treaties, but it is not subject—

CHAIRMAN—I think the one was with Germany. Was it with Germany? Do you remember, Mr Broome?

Mr Broome—It might have been a mutual assistance treaty with Germany that has finally been put in place. The Asia-Pacific group is, I suppose, in international affairs jargon, a non-organisation. It is very much intended to be a meeting of relevant jurisdictions. It is not underpinned by formal agreement. It is essentially countries with a like-minded objective coming together to explore what the options are. It may be that some of the members will themselves develop bilateral relationships separate from but, in a sense, following the same kind of outcomes, and that will be dealt with obviously on its merits. It may be down the track that members of the group might suggest that there might be some kind of Asia-Pacific treaty as a point to aim for. That has certainly not been discussed, and I think it is a long way off.

The European experience, for example, has shown that you can have European mutual assistance treaties which operate now broader than just the EU and so on. So there are possibilities in that regard, but at this stage we are very much talking about the crawling stage rather than the running stage. When you get into full-blown treaty relationships, you are very much a long way down the track.

CHAIRMAN—Mr Whiddett, I should have asked you in the first place whether you want to make an opening statement. You obviously do. Let us get that on the record.

Mr Whiddett—I will be very brief, Mr Chairman. Firstly, I want to say that the AFP's interest is a wide-ranging brief in safeguarding Commonwealth interests, and the drug traffic in South-East Asia is a significant part of it, but a part of it. Most heroin and some cannabis come from South-East Asia. Our interest is in the principals behind major organised cartels and the penetration and dismantling of them in conjunction with international colleagues.

In that regard, we have liaison officers in Bangkok, Singapore, Manilla, Jakarta and

Kuala Lumpur and we are hoping to open a post shortly in Vietnam. We are also in Hong Kong and are hopeful that in time we might have a post in Beijing, but that is a bit further north.

It is reasonable to say—and it has been mentioned by Mr Broome—that the drug traffic is an international multi-billion dollar enterprise. The profits are undisclosed and untaxed and that is a significant loss to countries such as Australia. The profits from drugs are variously described as somewhere between \$US300 and \$US500 billion annually and the drug trade rivals the arms and oil industries. That is reasonably significant in terms of context. It is a very big industry and that is why so many people are drawn to it.

It does, as has already been said, compete unfairly with, penetrates and may take over legitimate business and has in some countries. The drug problem is deepening world wide. The production of heroin has doubled this decade and the tonnages, as we said, are increasing. International cooperation against supply is absolutely vital, and there is a multiplier effect arising out of the drug trade which goes into other areas of criminality, affects the quality of life of Australians and weakens both public and private institutions, representing a growing national security threat. More can be said about that later. We have a paper for the committee on transnational crime as a security threat and I am sure the committee will find it interesting. The US Department of State's international narcotic control strategy—

CHAIRMAN—Is that the one by John McFarlane?

Mr Whiddett—That is the one, yes.

CHAIRMAN—We already have that, thank you.

Mr Whiddett—The US Department of State's international narcotic control strategy report estimated in March 1997 that the Golden Triangle countries—there are actually four now, that is, Burma, Thailand, Laos and Southern China—produce 65 per cent of global opium production. The State Department estimates that Burma's production of opium gum increased nine per cent in 1996 and represents 90 per cent of regional production and more than half of global production. Most of this product is refined in Burma by ethnic Chinese. Thence it is trafficked predominantly via southern China and South-East Asia, again predominantly by ethnic Chinese. These Chinese familial, cultural and ethnic links facilitate a trafficking chain from the growing regions right into Australia.

Within South-East Asia, Cambodia, Vietnam and Laos are a growing concern as drug trafficking countries. Although ethnic Chinese are the most prominent traffickers into Australia, trafficking is also undertaken by Vietnamese and other groups but generally in smaller quantities. Major entrepreneurial and money laundering centres associated with the heroin trade are in Hong Kong and Bangkok. Trade in cannabis is often entrepreneured by ex-patriots from locations such as the Philippines and Thailand. Significant growing of

high quality cannabis is undertaken generally in Thailand and Cambodia and lower quality cannabis is grown in the Philippines.

Interestingly, nowadays synthetic drugs such as amphetamines are becoming an attractive proposition to those countries who historically dealt in heroin. Many of the drug principals of the Golden Triangle are turning increasingly to amphetamine production to feed the large and growing amphetamine habits of Asian countries such as Thailand, Japan, Korea, China and the Philippines.

Singapore, Malaysia and Indonesia have growing ecstasy problems but this product is sourced mainly from Europe. There is little evidence of major importation into Australia of amphetamines manufactured in South-East Asia—certainly from other parts of the world and Europe. Given the existence of heroin trafficking routes, and given that the heroin manufacturers and traffickers are often also amphetamine manufacturers and traffickers, the situation obviously needs close monitoring.

I might say that the need for the liaison network abroad is important in the sense that the network, although small in numbers—although we have five in Bangkok—is very important in gaining cooperation from participating countries in South-East Asia. It is not always easy to make Australia's interests important to others. The need for cooperation in that regard is important. Reciprocation is absolutely vital.

We have an MOU with Indonesia in relation to law enforcement matters and recently with the Philippines in relation to child sexual crimes. We run courses for officers in South-East Asia, principally the management of serious crime course, and that is conducted in Australia. We do other training courses elsewhere in the region. Again, this is important, and while the number of courses is small and the contribution made by the AFP in this area of law enforcement education is modest, it goes a long way to the cooperation that we require in investigating major drug trafficking.

CHAIRMAN—Thank you. Before we go in camera, I will ask a general question about the impact of the current financial crisis and the attitude of ASEAN governments in terms of making their financial systems more transparent. Do you think that, as a result of what is going on at the moment, they might tend to close things off a bit rather than make them more financially transparent and, therefore, make for more difficulty for organisations like the NCA and the AFP?

Mr Broome—I think if I could predict what the Asian economy was going to do I would not be sitting here; I would be doing something quite different. I do not mean that flippantly. It is just very difficult to know how it will turn out. I think there are basic pressures in terms of global markets, in that whatever they may wish to do they are not going to be able to avoid those problems. So I think they are going to have to be part of that system.

However, there are some unique issues in the region that I think need to be highlighted but not necessarily for any legal purpose whatsoever. But the fact is that the Asian economies tend to have much greater cash components than perhaps the European and North American economies. Indeed, one of the topics of frequent discussion in the region, when you are talking about money laundering issues, is the extent to which the 40 recommendations, which deal very much with the kinds of problems of the Western economies with which we are very familiar, may not necessarily deal with all the issues that they face. If you have a very large proportion of your economy run on a cash economy basis and quite legitimately run in that way, it does raise questions about how you trace transactions and so on.

I think what we have seen in most of the major jurisdictions is, quite frankly, fairly sophisticated financial markets which, while there are reactions now to a variety of pressures, I do not think in the long term are going to close down. The problem for us is the sheer volume of movement of funds through these economies and detecting which of those transfers are those about which we should have real concerns. The real problem in Australia is the sheer volume of legitimate commerce, which means that you can move very large sums of illegally obtained funds around the country or out of the country. You can do it now extremely quickly and very easily.

Evidence was then taken in camera, but later resumed in public—

[10.14 a.m.]

BALL, Professor Desmond John, Co-Chair, Australian Council on Security Cooperation in Asia Pacific, Strategic and Defence Studies Centre, Australian National University, Canberra, Australian Capital Territory 2600

CHAIRMAN—Welcome. I do not know whether you were here when I mentioned to the previous witnesses that we do not, in this committee, swear or affirm, but I remind you of the parliamentary processes and all that goes with that. Do you have any comments to make on the capacity in which you appear?

Prof. Ball—As well as being a professor in the Strategic and Defence Studies Centre, I am also a member of the Steering Committee of the Council on Security Cooperation in Asia-Pacific, or CSCAP and I am co-Chair of the Australian CSCAP committee. It is probably more directly in that capacity that I am here this morning.

CHAIRMAN—Thank you. We have not received a written submission, but your paper entitled ‘CSCAP: Its future place in the regional security architecture’ has been circulated as an exhibit to the committee. Would you like to make a short opening statement?

Prof. Ball—Yes, thank you. I thought, after discussing it with John McFarlane and others, and going through the material that I had received from the secretary, that I should put together some introductory comments. I have been asked to talk about some of the background, purposes and structure of the Council on Security Cooperation in Asia-Pacific, or CSCAP, and its relations more specifically to the ASEAN Regional Forum, the ARF, with respect to some of its principal activities.

CSCAP is the most ambitious and structured second track process which has been established throughout the Asia-Pacific region. It was established in 1992-93 following a series of meetings by officials from many countries in East Asia and acting in their private capacities, as well as the directors of various think-tanks and strategic and defence studies centres throughout East Asia. Discussions which took place during the course of 1991-92 were finalised with an agreement to establish CSCAP in November 1992, that is, a couple of years before the ARF was up and running. At that time we were really trying to explore what possibilities there were for some sort of regional security architecture, and many of the same people who then went on to push the ARF concept had been, in the previous two years, pushing the necessity for a structured arrangement which became CSCAP.

By a ‘second track process’ I mean a process which is essentially non-governmental but which involves officials quite integrally in that process in their private capacities. The basic premise of CSCAP as a second track organisation is that about half the members and participants in it are officials—military service persons, civilian defence officials, civilians foreign ministry officials, and about half are non-officials—academics,

people from strategic and defence studies centres and other think-tanks around the region.

The basic organisation of CSCAP is that there is a steering committee which is made up of representatives from about 20 countries that are members of CSCAP. All of the major countries in the region have now joined CSCAP. The most recent and most significant of the recent ones was China, in 1996. Underneath that steering committee is a series of national committees which have been set up, again, in about the same 20 countries. These national committees typically consist of several dozen members of whom, again, about half are officials in their private capacities and about half are non-officials.

You mentioned that you have the background paper that I prepared a couple of years ago, which includes in it some of the basic CSCAP documentation as appendices at the end. It includes the original statement that was agreed in Seoul in November 1992, the CSCAP charter and a table which shows the state of play with the setting up of these national committees.

The Australian committee, like the others, has about 30-odd members—half official and half unofficial. I have the actual membership of it, as of earlier this week, and I will leave a copy of that with you for your own purposes. There are also parliamentary members on this Australian CSCAP committee, and the Rt Hon. Ian Sinclair is one of the members. There is also a member from the other side of the parliament as well. At the moment that is Arch Bevis, representing the Labor Party. We meet twice a year and we produce a newsletter which describes our various activities. Again, I brought some copies of those for you as well.

The basic working level of CSCAP is the working groups, and we established four in 1993-94. The steering committee is basically a management and policy oriented mechanism for dealing with disputes. Originally it was the process which got the whole thing up and running but, now that it is up and running, the activities are done through working groups, and we have established four.

Firstly, there is one dealing with concepts of cooperative and comprehensive security, which was established as a result of a suggestion by the Malaysian Foreign Minister, Al Badawi, in 1993. That working group is looking at the broader aspects of security beyond just traditional military security. It is looking at economic security and it is looking at environmental security, and it has been doing some work on transnational crime and other so-called new agenda areas in the security agenda.

Secondly, there is a working group which deals with CSBMs—confidence and security building measures—in the region. Thirdly, there is a working group on maritime cooperation, which is co-chaired by Australia and Indonesia; that is, by Commodore Sam Bateman from Australia and Rear Admiral Sunardi from Indonesia, from HANKAM in Jakarta. That has been one of the most successful working groups. There are a couple of volumes of papers which have been prepared and published by that maritime cooperation working group, which I will also leave with you.

Fourthly, there is the working group on North-East Asian security, which is only now just getting up and running because its functions have been very dependent on the full involvement of North Korea and China. Their involvement did not take place until 1996 and, hence, that North-East Asian working group has been the last to get up and running.

Each of those four working groups has now had several meetings—of the order of half-a-dozen meetings now—and is in the process of producing the publications that have arisen from those meetings. I have just given you the two from the maritime cooperation group.

Over the past several years we have also recognised, partly as a result of the work of the working group on concepts of cooperative and comprehensive security, that more work needed to be done on those issues which I described before as the so-called new agenda issues: economic security; environmental security; and questions of transnational crime such as drug trafficking, money laundering, computer crimes, et cetera.

A decision was made in 1996 to set up a fifth group in CSCAP, this time as a study group, on transnational crime. It had to explore the various issues relating to transnational crime with the possibility that that study group would become CSCAP's fifth working group in the very near future. I will leave it to John McFarlane to talk about what has actually been done with respect to this new study group on transnational crime, but that is basically the context of how it arose, how it is structured and the framework in which it fits.

I will now just say a few words about the relationship of the CSCAP process to the ARF. It is still an evolving relationship. Very little of the relationship has been formalised, and that is for several reasons. One reason is that much of the ASEAN way of dealing with these arrangements is through informal processes. There is no necessity in the view of many of the participants, particularly from the ASEAN countries, to formalise these arrangements any more than they already have been.

It also has been evolving, obviously, from the simple time perspective. The ARF itself was set up only in 1994. It was only in 1995 that it developed the concept paper with the annexes A and B, which have become the basic bible of ARF activity. That occurred in August 1995—only two years ago. CSCAP had been set up before that, but in fact it was only in 1996 that North Korea and several other countries, most particularly China, also became members. It was only when the CSCAP membership became conformal with the ARF membership that CSCAP could feed materials into the ARF without countries such as China being able to reject it at the ARF level because they had not had any input when it was at the second track or CSCAP level. Now the memberships are totally conformal that problem has gone away.

That means that, in essence, the relationships today are essentially threefold.

Firstly, there is the relationship between individuals. Many of those who are the key players at the ARF have also been one and the same individuals who have been the key players at the official level, working in their private capacity in terms of setting up CSCAP. In South-East Asia, the core ASEAN countries of Singapore, Malaysia, Indonesia and the Philippines have been very much the same people involved in both the ARF and the CSCAP processes. They simply change their hats from when they are officials officially at the ARF and when they are officials in their private capacities at CSCAP. The products which CSCAP produces are then taken up by these individuals when they change from their CSCAP hat to their ARF hat at the senior officials meetings for the ARF.

Secondly, CSCAP itself produces a series of memoranda, which are officially endorsed by CSCAP and by all the member committees having gone through their own official establishments. We have now produced several of these. The first one was produced for the first meeting of the ARF senior officials, which took place in Bangkok in April or May of 1994. There is another one on maritime cooperation which is being discussed now or being circulated to all foreign ministries and defence ministries and navies throughout the region for their endorsement. We expect that endorsement in the next couple of weeks, and then that will go up to the next ARF senior officials meetings. That is the formal process for memoranda and studies and those sorts of things.

Thirdly, there is a much greater level of day-to-day activity at the working group level. The ARF set up its own second-track process a couple of years ago to deal with questions such as preventive diplomacy, peacekeeping, search and rescue, et cetera. A decision was made at the meeting of the ARF senior officials at Langkawi earlier this year that from now on those second-track activities of the ARF, which is all of the ARF studies and analysis activities, will henceforth be done by CSCAP. Already since that Langkawi meeting CSCAP has done two of those. The first one was on preventive diplomacy, which was organised for the ARF by CSCAP in Singapore in September. The second one is now being organised by the New Zealanders for the ARF, which may have already taken place. I am just not sure what has been happening with that second meeting.

Basically, from now on all of the major research and analysis activities of the ARF being done as an ARF activity rather than by individual foreign ministries are henceforth to be done through CSCAP. So throughout the region there is an increasing identity of CSCAP agendas and ARF agendas with CSCAP more and more feeding directly into the ARF processes by these various means. I will leave it there, Mr Chairman.

Mr McFarlane—I will take on from where Professor Ball left off. In the middle of 1996, the issue of transnational crime as a separate entity to be looked at under the CSCAP umbrella was first floated. It was at that time that we produced the paper that you have a copy of. It is a difficult area for a lot of countries to deal with because of the sensitivities involved, including the problem of corruption and the problem of the perception that countries, such as Australia, might be either interfering with internal affairs—obviously, crime is an internal affair—or moralising on the standards of behaviour

of individual countries. It has been difficult to get that balance right.

Nevertheless, having sown the seed in June 1996, at the end of 1996 there was a steering committee of CSCAP held in Canberra, which gave rise to a resolution. I will not read the whole lot, but the basic part of it that affects our interests here is that a study group was set up with the objective of gaining a better understanding of, and to reach agreement on, the major transnational crime trends affecting the region as a whole, to consider practical measures which might be adopted to combat transnational crime in the region and to encourage and assist those countries which had recently become engaged in regional security cooperation and which are concerned about the problem of transnational crime in the region to endorse United Nations and other protocols dealing with transnational crime, particularly in the narcotics area, and to develop laws to assist in regional and international cooperation to counter drug trafficking, money laundering, mutual assistance, extradition and the like.

So we are trying to identify the problem and to come up with practical means of dealing with the problem—not to have it totally academic but to have it sufficiently rigorously examined so that ARF and the political leadership would have a much better understanding of the nature of the problem and so that whatever we recommend in terms of action would be consonant with the United Nations and other major transnational and regional initiatives which have already been taken. I draw your attention to an article in the AFP journal which provides a certain amount of background on the establishment of that study group. I will leave that with you.

We had the first meeting of the transnational crime study group in Singapore in March last year. It was attended by eight countries and about 18 people from a wide range of disciplines, including strategic analysis, political science, sociology, military service and policing. One of the principal things we were able to agree on through a white board exercise was the various generic crime types that were problems to all the countries in the region to eliminate specific countries from this list, to then get some sense of priority of those particular crime types and to then allocate research projects based on those crime types so that we would start to focus our attention on developing a much clearer understanding and lead to the outcomes that the objectives of the study group had already set. I will also table the record of the first and second meetings of the transnational crime working group, which I will come to in a minute.

To reinforce the issue of transnational crime as a national security problem, we rewrote the paper which you have circulated prior to this hearing. I would like to also provide copies of that. I particularly draw your attention to three elements, which are in boxes. One deals in a much more rigorous way with the changes that are occurring in this region and which indisputably will lead to greater problems in the transnational crime point of view. I will not go into them now.

CHAIRMAN—So it is an update of that earlier paper?

Mr McFarlane—It is a more expanded version with better conceptualisation. More particularly, it deals with issues that lock it more into regional security than just dealing with crime. The second box deals with the enormous range of activities that organised crime in the region involves itself in. The purpose of that is more to drive home the point that we are not dealing with just drug trafficking or just money laundering but dealing with a much wider range of issues.

The third box deals with some future prospects from a sociological and criminological perspective, which will probably mean that the expansion of transnational crime and all that goes with it is inevitable in this region. Therefore, we need to have better mechanisms to deal with an understanding of it and to get it recognised as a major security issue that goes alongside the other issues which have already been identified in military and other security issues which are being looked at in the CSCAP and ARF context.

We had our second meeting in Bangkok a couple of weeks ago. For the first time we were able to get the initial product of some research which had been conducted in this case by Australia, India, Canada and Thailand. It was done by only four countries, but nevertheless it was the beginnings of the development of a set of good solid research papers which ultimately will be published in exactly the same way as the maritime cooperation papers.

We also focused some more attention on which of the list of 19 generic crime types were really more significant from a regional security point of view—that is, which sorts of things are likely to upset the stability of the area rather than just being a transnational crime. There we concentrated more attention on arms trafficking, counterfeiting, drug production, illegal immigration, white-collar crime, money laundering, smuggling of nuclear materials and technical crime issues. We have now developed the beginnings of a critical mass of expertise and membership which will carry us through in a way which will enable us, I hope, to provide a really useful input into ARF and to our own individual political leadership on the transnational crime trends which do affect our regional security interests and which concern governments other than the government of Australia.

Mr Whiddett—From the AFP's point of view, we are very happy to be involved in the working group on transnational crime. My own view is that it contributes to the issues that we addressed in the previous session—that is, if there is to be a ground swell of change in relation to some aspects of corruption in some countries in South-East Asia, it will come from mobilising people other than law enforcement officials. It seems to me that with CSCAP we are getting to areas in the public and private sectors which will cause changes to occur in attitudes and probably, if you like, the importance of transnational crime as a security threat. I think this is the issue.

From the AFP's point of view, it forms part of a higher form of strategic

intelligence which allows us to be less, if you like, inward looking. One of the difficulties with law enforcement agencies is that they tend to be consumed by the events of the moment. They do not have the time, the willingness or the resources to look beyond that. It seems to me that being involved in this process exposes the AFP and other law enforcement agencies that would benefit from this to a wider environment of information and data from which we can draw conclusions about present and future threats. So from our point of view this is another piece of armament for us.

CHAIRMAN—Without getting into the detail of what we discussed in camera, I think it would be fair to say that in general what emerged was the need for a wider interpretation of the regional security umbrella, if they are the right words. I suppose that is exacerbated by what is going on at the moment within ASEAN in terms of financial instability. Des, would you like to just make a general comment on the impact of that, particularly what has been going in the last few weeks, in terms of the broader security of the region?

Prof. Ball—There is a general acceptance of the notion that countries in East and South-East Asia have tended to always think about security in much broader terms than Westerners and Australians in particular, and countries in both North-East Asia and South-East Asia have for several decades now articulated concepts which they have themselves described as comprehensive security. There are some differences in what they believe comprises comprehensive security. The Japanese, who were the first to use that term, related it more directly to economic security and more particularly the security of the sea lines of communication but, in Japanese terms, comprehensive security is very much about economic security.

In South-East Asia, those who have used the term comprehensive security have tended to more often push the concept of what they call national resilience leading in turn to regional resilience. What they mean there is comprehensive security in terms of national development and national stability, and all of the elements of national development—whether they be economic, cultural, ideological, et cetera—are also parts of security in their terms.

In more recent years, it has been argued that, with the end of the Cold War and the basic military stand-off between the United States and the Soviet Union, there is more attention being given to these new security threats of economic security, some dimensions of which, though, have been around for some time; of environmental security, worries about what the implications are of major environmental breakdowns in a particular country, whether it is the fires that we have seen more recently in Indonesia or more serious things such as a melt-down of a nuclear reactor in Indonesia and what the consequences of that would be in South-East Asia or in northern Australia depending on the time of the year; and of many of these issues which John McFarlane has outlined to you.

I have not been entirely persuaded by this sort of articulation that I have just given to you because, while countries in East and South-East Asia have used the rhetoric of comprehensive security—including very recently in terms of economic security—they have also been paying very explicit and direct attention to their own military capabilities and their own self-reliance. You only have to see that in North-East Asia, with the very major defence budgets which are now possessed in Japan, China—where they are of the order of \$40 billion or \$50 billion a year now—South Korea and Taiwan. And vice versa in Australia. People have said that Australia's security planning focuses only on the military side. That is partly true, but it is not the whole truth because the Australian intelligence community and other agencies of the Australian government—the Department of Foreign Affairs and Trade and various other departments—have for a long time focused on these other dimensions as well. So I am not sure that that characterisation is totally apt.

The real question for discussion in the region these days I am finding is what the real appropriate balance should be between that traditional focus on military security and the resources and the interest that one is putting into these newer areas of security. In Taiwan, for example, following the missile crisis in March, April and May of last year, an economic security subcommittee has been established of their national security committee to make sure that shocks to their stock market of the sort that took place last April/May do not occur again and to make sure that the impact on their foreign exchange holdings does not occur again. Taiwan has about \$90-odd billion in foreign exchange. They were able to have a foreign exchange fund and a stock exchange fund so they can move into those areas to alleviate the effects of missile crises and other military activities on their economy.

You are seeing more planning like that also in the South-East Asian countries, all of which now have national security councils of one sort or another to coordinate the military dimensions with these other dimensions. Whether or not, like Taiwan, they have economic security subcommittees, they at least have some counterpart mechanism of that now in every country in South-East Asia and virtually every country in East Asia as a whole.

Mr SINCLAIR—I have a range of questions. Firstly, the scope of CSCAP has sometimes concerned me. It is very difficult to get together and the cost of operating is high. Japan, fortunately, is a great contributor and a great supporter. Have you felt that, in having as wide an embrace as you do, you are less effective? Or is there, in your view, more to be gained simply because you have that wider scope and, therefore, in the long term presumably you would be able to develop the infrastructure around which you might be able to get the influence on ARF and on other groups?

Prof. Ball—There is no doubt there is a major problem there that we have been playing with right from the beginning. Right at the outset we adopted a principle that CSCAP should be as inclusive as impossible. Any country in the region that wanted to join would be able to join, regardless of where they were coming from in terms of Cold

War orientations and all the rest. This was in 1991-92 that we were talking about this.

When we talked about inclusiveness, we were talking for the first time about countries such as North Korea, Mongolia and others that had been excluded from all these dialogue processes coming along. We had to do that, though, once the ARF was founded because, if we were to have any policy impact, we had to tie ourselves in with the ARF and that meant the membership had to be, by and large, co-extensive with the ARF. That meant that, rather than a smallish group, we again had to have the 20-odd players which we have now. It was not necessarily total conformity with the ARF but certainly with regard to major players such as China. There would have been no sense in having a CSCAP dealing with regional security issues without China.

There is no doubt that there have been downsides of this inclusive, extensive, bringing-everyone-in approach. A major downside has been the resources which are required. They amount to hundreds of thousands of dollars a year. But we have not been doing too badly there. In fact, most of the resource questions are pretty much in hand. We are now talking only about a few tens of thousands of dollars which would be helpful, but basically the major resource problem is solved.

The bigger downside, though, is that, having so many members and such a complex structure of national committees, steering committees and working groups, there is an enormous bureaucracy. It is not really a formal bureaucracy. It is an enormously bureaucratic process one has to go through to get consensus and to get agreement, but that is a process also that the ARF has to deal with. It is cumbersome and it leads to another downside of all this—the process has been slowed down and has increasingly been reduced to lowest common denominator stuff.

All the momentum with regard to multilateralism, the setting up of the ARF and the annexes 1 and 2 that I talked about before that we saw in 1993, 1994, 1995 and into 1996 are no longer there. There is no doubt that the whole momentum of multilateralism in Asia has slowed. That is clearly quite evident. It is more now a period of consolidation and of taking up particular issues—whether it be the transnational crime or others—and feeding those through rather than growing in all different directions, as we had done and as the whole multilateral process had done through the mid-1990s.

Mr SINCLAIR—Because your meetings have been held at times when I have been otherwise involved, I have not been present as much as I would have liked. It seems to me at the moment that there are a couple of major issues which somebody needs to address. I do not think they are being addressed sufficiently, significantly just at the government level. One of them obviously is environmental pollution, which has been apparent as a result of El Nino and the general difficulties that come out of what is happening with land clearing and deforestation and where it is going and the direction of investment.

The other one is more immediate: it is the whole question of currency volatility and the enormous downside that I can see unless there is some way by which you can stabilise currency. I know that the former governor of the Reserve Bank did suggest that we might have some regional bank of settlements, and there has been some talk about that. Is there any capacity within CSCAP to extend the reaches you have in transnational crime and to look at what seem to be emerging problems, and to do it in a way that might help through what are the crises that each nation is finding it very hard to address on their own?

Prof. Ball—Both of those issues are ones which are already of major importance in the strategic scene and are going to become more important and, indeed, have been the subject of discussion, not just at CSCAP but at other regional security fora, over the past several years. There is no doubt that a lot of work needs to be done on environmental security. What are the implications of climate change, of rising sea levels, of pollution, of smoke haze, nuclear problems and all of these sorts of things in terms of security?

For some countries and some of the small island states in the South Pacific, obviously the effects of climate change, if it occurs, and of rising sea levels are of fundamental security interest to them because they will just disappear as island states. Even in many other countries, the major urban areas such as in Thailand around Bangkok are very low in terms of sea level.

Environmental reasons have historically been major causes of conflict. In the Middle East in biblical days wars occurred because of people cutting off rivers, polluting rivers upstream, diverting them or whatever. I believe that, as resources become scarcer, as the world's population keeps increasing and as environmental problems continue to arise, questions of resources and environment will become increasing sources of conflicts and, indeed, of wars, including in our own region and not just where we have already seen them in the Middle East and Africa. You will see more of them in our region as well.

It is not just wars but the massive scale of human problems. It looks, for example, as if the whole of the topsoil in Bangladesh will be gone within another 10 years. There are tens of millions of people who are going to become environmental refugees there. Where are they going to go? How are they going to be handled? I think one of the functions of the CSCAP working group on concepts of cooperative and comprehensive security has to be very quickly to move into this area of environmental security. It is an area crying out for people to do a lot more work in.

On the question of currency volatility, I put that within the framework of a whole lot of other allied questions relating to other aspects of economic security. I am not really sure that CSCAP, which are basically security analysts and defence and foreign ministry officials, are the right people to deal with questions of economic security. There are other processes which have been set up under the APEC auspices and, more particularly, under PECC auspices, looking at various aspects of economic security, looking at dispute

settlement that arises out of economic problems, looking at environmental issues that cause economic problems which, in turn, can cause security problems, et cetera.

What I would like to see and, indeed, have been arguing on paper now a little bit during the last year or so, is the establishment of some mechanism which would bring CSCAP and PECC together in the setting up of a joint CSCAP/PECC committee or working group to work specifically on these economic questions which would have security dimensions, and then to put that up to some mechanism which would be at the APEC level.

You may know that there is a lot of work going on at the APEC summit meeting level now with senior officials to also start more formally discussing those economic issues which could have security dimensions. The Japanese are pushing this very hard and it will come up at the next APEC leaders meeting. It may not come up in terms of a formal agenda but, without any doubt whatsoever, it has already been coming up in terms of papers which have been prepared officially through the Gaimusho, for example, and which have already been circulated officially. I think that will lead to the institutionalisation of some mechanisms which will allow the security and the economic communities to get together to start teasing out some of these issues of currency volatility, et cetera. At the moment, there is no mechanism for doing that.

Mr SINCLAIR—I was aware of that, but I think it is a very serious and critical problem and, without extending the argument, I think it is a pity if it is left alone to the World Bank or the IMF, neither of which is totally oriented to the particularity of the issue as it is in the region that concerns CSCAP.

There are two facets of the work that you are doing—and I do not know if it is peculiarly in CSCAP but it is certainly in this group of transnational crime. One is that transnational crime is not peculiarly in the region. There are many other countries that intrude into it. Is there a capacity to extend beyond your borders? For example, Eastern Russia borders our region, crime comes through America from Europe and so on, so are you looking beyond the immediate role of the work you have now or do you see that as work for another forum?

Mr McFarlane—I think the answer is that obviously we start from a global position, but we pay much more attention to the regional implications of it. You mentioned Eastern Russia. There is Russian membership of CSCAP and, indeed, at the first meeting of our study group we had a senior Russian official and he contributed a paper on Russian organised crime which was quite useful. As a result of that, in a further meeting which we held in Malaysia in June, the ASEAN round table, the Russians offered to provide us with a paper on their perspective of drug trafficking as a national security issue. They have not delivered yet, but I think the point is that many of these more globalised issues are being picked up in the context of the impact of it regionally, because all these global issues to some extent have an impact regionally.

South America is another key point. From the drug trafficking point of view, it is a tremendous problem to the United States. It is still a problem to Australia, but it is on the periphery of the Asia-Pacific region so we would certainly be conscious of the threat, particularly the cocaine smuggling threat, as it may impact on the region, but we would have to draw from outside the region to get the relevant information and assessment.

Mr SINCLAIR—The other problem is that in some of the countries of the region it is the military as much as anybody who are involved in the crime that you are investigating and yet military and domestic police forces tend to be very much interwoven, and often the major crime protection agencies in some countries which are members of CSCAP is in fact the military. The military people are both the perpetrators and the investigators. How do you cope with that?

Mr McFarlane—It is terribly difficult. This paper I circulated on transnational crimes as a security issue specifically addresses military security and the synergy which may occur amongst what might be described as a pariah state, the military forces that support that state and the criminality that is engaged in that state. I think we just have to take things as they come, Mr Sinclair, and we deal, at least within our study group, on the basis that if military people or police people from various countries, including those that we have some doubts about, are interested enough to attend, then we will take their contribution in the same way we take everyone else's, but we might have our own reservations.

Mr HOLLIS—Just coming back to what Professor Ball was saying about economic security, is it not really the lack of economic security that has led to a breakdown in other fields of security? I was interested when you were talking about—I forget the exact words you used—economic security, and how you were not studying it or putting an emphasis on that. It seems to me that talking about the whole region is the key issue. Perhaps what we are going to see flowing from the last couple of years, if the economic security goes in that area, is all sorts of conflicts emerging.

Prof. Ball—There are many different levels at which economic and security factors come together. At the most general level, one can argue that the reason for the amazing economic growth of the past several decades has been that there has been a secure environment in which that growth can take place. Vice versa, one can argue at the most general level again that, because of that economic growth and rising standards of living and levels of satisfaction, there has been less reason for argument and for conflict. Economic growth leads to a more secure environment and the more secure environment leads to economic growth.

There is a lot of truth in that at the most general level, but when you start looking at particular aspects of economic interdependencies and economic relations between countries then you often find that they become just as much a cause of tension and disputation as they do of good relations. Historically, conflicts have tended to arise

between countries who have been close trading partners and who have had close economic relations rather than countries that have had no economic relations between them at all. In fact, because they have had no relations they have had no reason to have conflicts between them. But there is a higher correlation of conflicts between countries which have close economic relations as opposed to those who have more distant economic relations.

I myself believe that, while you have economic growth proceeding at a fairly regular pace of eight per cent to 10 per cent of real growth a year, we will get some problems in terms of internal differentials and areas of a country which are growing much faster than others which will have some security implications. But, by and large, the security implications are benign when you have economic growth proceeding at those levels. When the economic growth falters or when you have a major hiccup like we have seen recently, people start blaming their neighbours. There are arguments as to why we have a high level of unemployment because of what this country has been doing—it has been dumping their goods on us, stealing our jobs, et cetera, et cetera. Those types of arguments lead to economically generated conflicts between countries who are close neighbours when growth falters or indeed goes negative.

I do not think you can generalise the relationship between economics and security. It operates at different levels. It has different implications in different directions. I certainly want to make the point that those who believe that higher levels of economic interdependence lead to greater security are, I think, misleading. I do not think that is the real picture.

CHAIRMAN—I have one last question in terms of confidence building measures and transparency. The previous government and the coalition government have built on that and enhanced it. We have seen a—more than multilateral—special emphasis on bilateral relationships first of all at the governmental level, then at ministerial level, official level, military level in that dimension of the relationship, and now with CSCAP at a non-government level. Do you feel that that is the way to go? Do they all add up to something much better? Do you see some pressures building up between those levels? Is that the way to go? Incrementalism is what I am coming to.

Prof. Ball—The way that you spelt it out may appear to be quite messy, with a whole series of different layers and structures, but in fact I very strongly believe that that is the way to go. What we are really looking for is a number of interlocking mechanisms at various levels: various subregional arrangements, some dealing with North-East Asia, some with South-East Asia and some with the South Pacific, including various communities, whether it is the military community or the law enforcement community. The more of these mechanisms which overlap we can put in place so that they are all tied together and networked together the more chance we have of enhancing security to the greatest extent.

If we just focus on one particular mechanism and say that the ARF will do

everything, militaries will do everything, the intelligence communities in each country will do everything or that second-track stuff will, the outcome will be that a great number of things will not get done. What I really want as the basic bottom line of regional security is this interlocking of arrangements and mechanisms so that we all sink or swim together. I think we should build on anything that is around. If police have a mechanism of liaison arrangements, then we build on that and strengthen that and lock that in with other arrangements.

CHAIRMAN—In that swimming is there anything, in your view, to indicate that one level is swimming against another—swimming in different directions?

Prof. Ball—No, I do not think that is the case so far because we have all been pushing in the same direction. I do think, though, that multilateralism has been losing some of that momentum that it had a few years ago and that other practical problems in implementation are now coming into being as we pass that initial stage. Now that we are looking at the very practical problems of multilateral surveillance in exclusive economic zone areas and things like that things will slow down even further. The costs of bilateral military arrangements have been rising.

All this means that in the next few years individual countries like Australia and the region as a whole will have to try to come to grips with this swimming around, as you called it—not because everyone is swimming against each other but just to make sure that we have got the right priorities and that we are putting scarce resources in the areas which will have the most productivity. In the past we have tended to do more military exercises just because we already have those exercises with particular countries. It has been very ad hoc. I do not see that in any negative context, but I do think that in the future we will have to have a better grasp of what the overall structure is and what the objectives are and try to put the priorities and the resources a little more into line.

CHAIRMAN—Okay. We do not have any more questions. Thank you very much. Once again, I apologise for keeping you so long, particularly when we were in camera.

[11.08 a.m.]

DOUGLAS, Mr Bryan John, Deputy Director, Australian Electrical and Electronic Manufacturers' Association, GPO Box 1966, Canberra, Australian Capital Territory 2601

GOSMAN, Mr Alex, Executive Director, Australian Electrical and Electronic Manufacturers' Association, GPO Box 1966, Canberra, Australian Capital Territory 2601

CHAIRMAN—Welcome back. We see your faces around here quite regularly. Thank you very much for the written submission. Are there any editorial amendments that have to be made to that written submission?

Mr Gosman—No.

CHAIRMAN—Thank you. Although we do not invite people to swear or affirm before this committee, I should remind you it is part of the parliamentary process and everything that goes with it. Would you like to make a short opening statement?

Mr Gosman—Yes, I have a few comments. Elaborately transformed manufactures are a key to Australia's export future as they provide high value exports and jobs and are a means of overcoming the terms of trade problem we are experiencing where we are, in real terms, receiving less for our exports of mining and commodity products. ASEAN is now the second largest market destination for Australian ETM exports behind north-east Asia. That accounts for 20 per cent of our exports as against nine per cent 10 years ago.

In terms of the electrical and electronic industries that we represent, they account for \$430 million of our export markets, which is an increase of 150 per cent since 1991. The market potential in this region is huge, with a rapidly developing growth and demand for infrastructure such that advanced telecommunications and energy systems will be crucial in countries such as Indonesia and Malaysia to maintain their present rates of growth. We argue strongly that Australia has the expertise and the capabilities in both telecommunications and power to supply these markets.

However, there are a number of trade barriers to increased exports into this region and they include: tariff barriers of up to 40 per cent, compared to five per cent in Australia; government procurement—for example, Indonesia recently put in place a 30 per cent local requirement for any telecommunications products—a lack of knowledge of Australia's capabilities; testing and performance barriers; questions of exclusion from some of their trade forums such as AFTA; and also the question of attracting investment into Australia.

If we could make some comments about the issue of currency instability because

that obviously was not addressed in our submission, it certainly is beginning to have an impact on our members and we are getting quite a degree of negative feedback. It is having a dual impact. There is uncertainty in the major markets, which is leading to a reduction in capital expenditure leading to contracts being cancelled. It is also leading to the need to top up funding where particularly one of our members recently commented they had received some concessional finance funding and now with the change in the currency ratios there is about a \$10 million shortfall in terms of completing that contract.

There is also the fall in the currencies which we believe will in the longer term lead to a significant increase in the competitiveness of ASEAN members and also a number of non-ASEAN members, particularly Korea. As I mentioned, our members are already seeing a softening in market demand and that is right across the range of electrical and electronic products, including appliances, telecommunications products and energy goods.

There is also concern about the second round effects on such major markets as Japan, which has a large exposure to ASEAN in both investment and trade and also still appears to have a fairly weak financial structure so that any adverse impacts that might flow into Japan from instability in ASEAN could also lead to a significant fall in demand from that market. I note the estimates in yesterday's edition of the *Australian* newspaper that an aggregate 10 per cent decline in ASEAN demand for Australian products would add 10 per cent to our current account deficit as well as impact on import competing business.

To finalise what we would like to see in government action, I think it is important that we maintain our financial stability and our sound macro-economic policy settings in the face of all this instability within the region. I think that is going to be important in maintaining confidence in Australia as an investment source.

The government is already doing a particularly good job within APEC and also with the information technology agreement on reductions in tariffs. We would argue for the maintenance of that pressure. We would look towards the linking of CER and AFTA. We would also certainly argue for improved industry-government consultation on trade issues, and in that respect I have to pay tribute to the government. We certainly believe that the contact the Department of Foreign Affairs and Trade has with industry has improved markedly over the past year. There is real consultation taking place, whereas in the past I would not necessarily argue that it was real consultation.

We would encourage all the ASEAN members to join the information technology agreement by which by the year 2000 there will be no tariffs applying to a range of telecommunications and computing products. We would also argue for a restoration of a mixed credit finance scheme as recommended within the Symons committee, but we believe that should be a tied scheme. There is also the implementation of a number of the recommendations of the Mortimer and Goldsworthy reports in terms of investment

attraction in Australia.

CHAIRMAN—Thank you very much. I would like to start by inviting some further comments on the currency instability. Without pre-empting what we may or may not write in our report, it just seems to me—and I feel sure that Mr Sinclair and Mr Hollis would agree with me—that this particular development is an important dimension of our report. I think we need a bit more anecdotal evidence, particularly from groups like yours, to give us what has been the potential impact, albeit in the short term, for the medium and long term of that sort of instability. Can you just quickly give us some examples?

Mr Gosman—It is developing so rapidly. It is probably something on which we could give the committee a number of short dot points. I note that five weeks ago we had a presentation by Alan Oxley, who is well known for his views on trade issues, and Roger Donnelly, the chief economist from EFIC. They spoke about the impact, and at that time they were relatively sanguine about the long-term impact. That was the view that most people, including the Treasurer, had.

Two weeks ago I was at a function of a member company that exports telecommunications equipment, customised type equipment. They said that they had noticed that two months ago there was a significant softening in the market. It almost happened overnight in Thailand and Malaysia, because once this instability happened people started holding back on the spend. They said that, if anything, it is getting worse. In terms of the approaches that they are following, it is very much cash up-front before they are prepared to ship any goods. I note that EFIC is doing a very good job in terms of insurance. Obviously, covering the financial risk has become that much more important in this area.

We are beginning to see that spread across a range of products. One of our members is maintaining a core capability in Australia but is looking at investing and setting up some subsidiaries across the region and exporting componentry from Australia and using Australian capabilities in product development and so on. It is interesting that that whole plan is being put under some threat because suddenly they are finding that the subsidiaries they are setting up in Thailand and Malaysia are having to pay a lot more to import their componentry products. In some cases, it is specialised steel that only comes from Japan, and the costs are now an extra 30 to 40 per cent. A number of the countries are putting in place increased tariffs or increased sales tax on imports. That is beginning to hit the industry as well. We are just beginning to get the first impacts.

Mr SINCLAIR—You just said something that cannot be correct. It would cost them less now to put material into plants offshore because the currencies are down. Therefore, with the same amount of Australian dollars—

Mr Gosman—I am talking about this company having investment in Thailand. So for the Thais to actually be importing the componentry—

Mr SINCLAIR—Yes, it would cost more.

CHAIRMAN—Bearing in mind that the drafting of the report will not start for perhaps another six weeks—particularly with this issue which, as you say, is developing day by day—could we ask you to perhaps give us some examples, even those that might be commercial-in-confidence and they would be handled accordingly, that might assist us in coming up with some substantive comment on this? I think it is an important one. It is pretty clear even from this morning's news that it is developing far more than anybody ever thought it would, and it has the potential to impact domestically on Australia as well, whether it be in the market or whatever. Could you take that on notice and perhaps give us something in a month to six weeks? I think that would help us.

Mr SINCLAIR—Could I just add something. There is another area that nobody has touched on yet, but it seems to me that it could be of benefit. Because there has been so much investment in manufacturing entities—and you gave that example of Thailand—technically their devaluation puts them at a better advantage, and I am not too sure to what degree we are going to get the flow-on advantage of those cheaper exports into other countries.

It is probably early days, but technically there should be an advantage for those who have exported. Many of those overseas plants are not designed just for domestic consumption in the country where they are operating. They are designed to export, and there should be some advantage to them for that devaluation. I am not too sure whether you could put a handle on that, but that is another area where some flow-back would be helpful. There are a lot of Australian entities, having invested in those countries whose currencies are now devalued, who should be able to get some flow-on benefit because of the downturn.

Mr Gosman—One of the comments we have heard, coming back to the one I mentioned—which is a motor manufacturer—is that in a lot of cases there is no local source of components, so a lot of the components have to be imported.

Mr SINCLAIR—They are assembly rather than manufacture.

Mr Gosman—Also we had a case earlier this year where we were successful, on behalf of the appliance industry, in getting some dumping duties put in place in respect of refrigerators that were coming out of Thailand—Sharp has a manufacturing facility there. The view within the industry is that this devaluation will far and away outweigh any dumping duties put in place. Again, it is a position where we have to assess to what extent there are imported components.

CHAIRMAN—Anything like that will be very helpful in drafting our report.

Mr SINCLAIR—You talked about CER and AFTA. We have been talking to people who are involved in CSCAP in the wider region. I would have thought that

accelerating the APEC process would be more use to us than that CER-AFTA link. I had a Fulbright scholar working for me earlier this year who took this course. He started off saying that we all ought to join the NAFTA—the North American Free Trade Association—and he moved from that to say that CER, AFTA and NAFTA really ought to get together. How does your association see the APEC move? Some of the momentum is perhaps not as great as it was, but demonstrably there is concern that there are lingering areas of high tariffs. I am interested that the CHOGM meeting in Edinburgh apparently is talking about where we go.

I must admit that, from where I see the position, we would be far better putting greater emphasis on the APEC freeing of trade and the non-tariff barriers because the non-tariff barriers are really more significant, increasingly so. Have you really examined it or is this a basic feeling that CER has been good for you so let us go to something else?

Mr Gosman—No, very much so. In fact, we appeared before the inquiry on Monday into APEC, so I have just tailored my presentation to the audience, but I would agree with everything that you have said. I suppose it is just a question of using as much leverage in whatever area you have. But at the end of the day we certainly believe that APEC holds the greatest prospects.

It might be worth briefly touching on the negotiations with the information technology agreement, where that essence started with negotiations between the United States, Japan and the European Union, trying to reduce tariffs. They were doing that off-line from the WTO and APEC. Then at the end of the day, towards last year, APEC became part of the process. With 93 per cent of those countries responsible for trade in these products, that has really short-circuited the APEC process quite dramatically in bringing most tariffs down to zero by the year 2000 or the year 2005.

In a number of areas, the APEC process on reducing barriers seems to have slowed down, but as an association we are heavily involved in a number of their trade facilitation measures. I mentioned the issue of testing and performance. That is a real barrier. We have mentioned before—to Tim Fischer, for example—the problems of exporting into Singapore where they have a very costly testing process. If you make a minor modification to a product, you then have to go and get the whole product retested, you go to the end of the queue, you pay your \$5,000 testing fee and all that might take you two months.

As an association, we recently had representatives in Canada for an APEC standards meeting where we put up a proposition on behalf of Australia to start looking at some of these issues. We recently had representatives at a telecommunications APEC working group and in some of these areas we are beginning to see progress. The more that can be put into it, the better the results will be for Australia.

Mr SINCLAIR—Thanks very much.

Mr Douglas—It is important that we do not abandon AFTA. APEC is certainly important, but there could be a danger in government officials saying, ‘Let’s just focus on APEC and forget AFTA.’

Mr SINCLAIR—I agree with that.

Dr SOUTHCOTT—How much progress has been made within ASEAN on non-tariff barriers? You mentioned them in your submission.

Mr Gosman—There is probably more being done within the broader context of APEC than within ASEAN specifically. My impression would be that the linkages with ASEAN are fairly informal—just consultative. At least with APEC, while it is non-binding and there is no legislative backing, there seem to be more formal structures put in place and a defined work program and accountability in that area.

Dr SOUTHCOTT—In terms of the areas that you are interested in—electrical goods, white goods and so on—have any of the countries within AFTA come to APEC with their individual action plans?

Mr Gosman—Yes.

Dr SOUTHCOTT—Which include their plans to reduce tariffs in those areas?

Mr Gosman—Yes, in the longer term. Arising out of the recent meeting of the APEC standards committee in Canada, there is potential that Australia will enter into bilateral negotiations with Singapore and possibly Malaysia just so that there will be mutual recognition of testing results. If we are exporting to Malaysia, we do not have to go and get products in Malaysia and vice versa. As I said before, that is quite a costly and time consuming barrier. There is a lot of scope to do a lot of this stuff that needs to be done on a bilateral basis. If we sit around and try to wait for it to be done on a multilateral basis with 18 members in differing states of economic development and differing levels of infrastructure, it will not be 2020 that it happens; it will be infinity. If we start moving towards bilateral negotiations, picking off certain APEC members, there will be much greater scope to get short-term results.

CHAIRMAN—There has been greater emphasis by the coalition government on bilateral negotiations. Are you saying that there is a direct economic spin-off as a result of that greater concentration in the bilateral area rather than the multilateral approach?

Mr Douglas—Yes. We welcome the government’s emphasis on the bilateral aspects. They are long overdue.

Mr Gosman—That also feeds back into the improved consultation issue. We are now in the position to actually say, ‘These are the particular issues and these are the

particular markets.' We are being listened to and those issues are being addressed.

CHAIRMAN—Thank you very much, and I do apologise for delaying you. We got about 45 minutes behind and we just have not been able to catch up.

Mr Gosman—I have got to say that previous speakers were very informative and well worth listening to.

[11.28 a.m.]

PURNELL, Mr Leigh, Director, National Office, MTIA, MTIA House, 214 Northbourne Avenue, Canberra, Australian Capital Territory 2600

CHAIRMAN—Firstly, I apologise for us being late. We have caught up a little but not completely. Whilst we do not expect you to be sworn or affirmed, this is still a committee of the parliament and everything that flows from that naturally applies. Are there any editorial changes that you would like to make to your submission or are you happy to introduce that unamended onto the *Hansard* record?

Mr Purnell—I am, yes.

CHAIRMAN—Would you like to make an opening statement?

Mr Purnell—Yes. At the outset of my comments, I say that clearly at this time it is more difficult to be definitive about things in relation to ASEAN, because the economic and currency situations are causing such enormous turmoil and swirl, both economically and clearly politically, than maybe three or four months ago. Therefore, if my comments are more heavily qualified than they previously might have been, I am sure that the committee is going to understand those circumstances.

I would like to give a few figures and statistics, if you would bear with me, to put in context the significance of the ASEAN markets to Australian industry. I must just bomb you with a few figures. Japan remains Australia's top export market. It took \$15½ billion or 20 per cent of Australia's exports in 1996. ASEAN, however, is a key market for Australian exports. It took \$11½ billion or 15 per cent of our total exports in 1996, and that was up from \$2 billion or six per cent of our exports in 1986. Australian exports to ASEAN have been growing at a trend rate of 18 per cent per year, faster than any other major markets.

If we were going to divide the world markets into trade blocs, I can give you a couple of comparisons. There is a little bit of double counting in this. Nonetheless, you will see, as a bloc, the importance of ASEAN. In 1986, Japan was No. 1. That is a market in itself. That had a bit over \$9 billion in exports in 1986. The EU was second with a bit over \$5 billion. NAFTA had a bit over \$4 billion. The US—and, as I said, here there is some double counting—had \$3½ billion. Then there was AFTA with \$2.2 billion and China with \$1.6 billion.

In 1996, we had Japan still as our No. 1 market with \$15.6 billion. Then AFTA comes up from fifth to No. 2 at \$11.6 billion and the EU drops from two to three, at \$8.4 billion. Korea comes in fourth at \$7.3 billion, NAFTA drops from third to fifth at \$6.4 billion and then New Zealand comes in at sixth at \$5.6 billion.

Imports from ASEAN to Australia are also growing at about 15 per cent per year. The value of imports from ASEAN increased from \$2 billion in 1986 to \$8 billion in 1996. ASEAN has doubled its market penetration of the Australian import market from five per cent to 10 per cent of total imports over the last decade.

Australia's trade balance with ASEAN has increased from about half a billion in the mid-1980s to \$5 billion in the mid-1990s. Australia's share of total ASEAN imports is declining. Australia's share has dropped from three per cent in 1986 to two per cent in 1995. Some of this decline is due to the increase in intra-ASEAN trade. Intra-ASEAN exports have grown at a trend rate of 24 per cent per year during the 1990s and now stand at 25 per cent of all exports into ASEAN. This compares with 1991 when intra-ASEAN exports represented a fifth of total ASEAN exports. Intra-ASEAN exports are increasing in significance. I think that is important when we look at some of the aspects of trading blocs and the importance of AFTA and CER.

I make reference finally to the government's white paper released about a month ago which states that globalisation and the continuing economic rise of east Asia will be the two most profound influences on Australia's foreign and trade policy over the next 15 years. They are some statistics that are important to put in context some of the things I would like to talk about. I also have a number of additional papers that I would like to table for the committee that might be distributed to the various members. I can talk a little about those.

CHAIRMAN—How about we do that first. If you would like to just read those into the record, we can accept those as exhibits.

Mr Purnell—The first paper I would like to submit is a paper that MTIA prepared entitled *Global market access—what it means for Australian industry*. That is a paper that gives a lot of those statistics that I was talking about and in much more detail. That is one that we have just done over the last week.

I would also like to table the CER report on the proceedings of the third meeting between the ASEAN Chamber of Commerce and Industry, ASEAN business leaders and Australia and New Zealand business leaders on cooperation between ASEAN and CER. This is a report on our meeting last week in Kuala Lumpur in conjunction with the ministerial meeting between ASEAN economic ministers and CER trade ministers. I would like to make some reference to that. Also, there is the full report from the Centre for International Economics, volumes 1 and 2. I think we may have given that to you. You may also have the joint press statement about the third informal consultations between the ASEAN economic ministers and the CER ministers. That is the meeting I was talking about where the business leaders were in attendance and reporting. Tim Fischer attended last week, and we also attended as business representatives between ASEAN and CER. They are some pieces of material that I would—

CHAIRMAN—Do you want to expand on some of those before we start questions? You said you wanted to refer to some of them.

Mr Purnell—Yes, I would. There are a couple of points. Firstly, MTIA clearly feels that the ASEAN region is a very significant area. About three years ago MTIA established an office in Jakarta. That not only is significant in terms of our bilateral relations between Australia and Indonesia but also has quite a deal of significance in relations between Australia and ASEAN broadly, given the importance of Indonesia.

The importance of AFTA and CER is a very significant issue to us. It is a No. 1 priority trade and regional matter for MTIA. Recently, MTIA commissioned the Economist Intelligence Unit to do a report for us. Hopefully, you are aware of it: it is called *Make or break: 7 steps to make Australia rich again*. The report made seven major recommendations. The AFTA-CER link was one of the top recommendations in that report. That area is particularly significant.

Maybe we can talk a little about the proceedings of the meeting that I, together with other Australian and New Zealand business leaders, had with the ASEAN business leaders in Kuala Lumpur last week in conjunction with the ASEAN economic ministers and the CER trade ministers. There was a very significant issue about the currency situation in the region in relation to AFTA-CER and in relation to ASEAN-CER developments. Maybe you would like to ask me some questions about that rather than me necessarily going through a whole lot of material. That is part of the information and the communique that I have tabled before your committee. They are my opening comments.

CHAIRMAN—I will start off with AFTA-CER vis-a-vis APEC. Ian Sinclair raised this with the previous witnesses. They agreed that the APEC umbrella is more important than AFTA-CER. You were just saying it is a very vital ingredient or something—I cannot remember your exact words. Would you also agree that APEC is more important or do you see the AFTA-CER relationship as being more important?

Mr Purnell—Clearly, in the total context of both trade and strategic considerations APEC is more important, but the reason we put the AFTA-CER link as having extreme significance at this point is twofold. Firstly, you have the 2010 and 2020 timetable for APEC—a hell of a long time—whereas AFTA will come fully into operation by 2003. There is a long time to go before those dates are realised. Secondly, a lot of people are fairly cynical about whether those dates will be met within the context of the requirements and commitments that APEC leaders have given. There could be enormous slippage and therefore there are a number of question marks about APEC goals and APEC commitments.

Thirdly, we believe that the AFTA-CER link, if it is able to be achieved, is a very significant step and a promoter of the greater APEC goal. In a way, if you are able to achieve bite-sized pieces along the way—and this is the point that we make to our

ASEAN business friends—it makes it a little easier before you get to full APEC liberalisation, whether it be by 2010 or 2020. That is where we see AFTA-CER also becoming significantly important, because it helps the South-East Asian economies deal with liberalisation, albeit only with Australia and New Zealand, and it helps a little in terms of some of that context on the way towards APEC. That is the context in which we would put AFTA-CER in relation to APEC. Clearly, APEC is the big strategic and trade game in the longer term and, if it can be achieved, that is a fantastic objective. In the shorter term, they possibly have AFTA-CER.

CHAIRMAN—The Deputy Prime Minister, the Minister for Trade, has put greater emphasis on the AFTA-CER relationship, albeit we are in the build-up stages of developing that more substantively. To what extent have groups like yours—MTIA and others—been involved in that sort of enhancement?

Mr Purnell—We completely support the government's position about the significance of AFTA-CER and we were delighted to see in the recent white paper that the government gave that AFTA-CER linkage official significance. We have been exceptionally prominent in that whole development. Some years ago during the term of the previous Labor government, when we had Bob McMullan and Peter Cook as the trade ministers, when the economic ministers of ASEAN were meeting with the CER trade ministers, there was the initial suggestion from the Deputy Prime Minister of Thailand, Dr Supachai, that business might like to be involved in conjunction with the ministerial meeting. It was at that point that MTIA became involved. We have set up a coordinating body within MTIA so that every peak industry group in Australia—and we have links with the peak groups in New Zealand—comes together to totally coordinate business input and business involvement with our ASEAN counterparts.

Twelve months ago we turned up the first time business leaders from ASEAN and CER were involved in conjunction with the ministerial meeting, and we had very significant meetings at that time. We had another mid-term meeting in March—both of those meetings were in Jakarta—and, as I said, we had our third meeting in conjunction with the ministerial in Kuala Lumpur and Singapore last week. MTIA has played a key role in that and Australian industry groups broadly have been active. Some sectors are more active. MTIA, I guess, has been the most active in this AFTA-CER link, though there are a number of sectors that are very heavily involved in that. But, as I have said, all the key groups, all the key industry association peak bodies, are part of this coordinating group.

It is significant that business has been pushing this agenda very aggressively and we are delighted that the Australian government has taken it up. It was picked up by the previous Labor government, and I am pleased to say it has been aggressively and enthusiastically pushed by the new Liberal-National government.

Mr LEO McLEAY—I suppose the question that you must be focusing on this

morning is what you think the effect has been of the recent dramatic changes in the economic situations of the ASEAN countries—in particular, the problem in Hong Kong and the tremors that that is sending out, even in Japan.

Mr Purnell—Thank you for that. I did preface my remarks by saying that, because of that currency and economic situation within the region, it makes it very difficult to be definitive about these statements whereas a few months ago we might have been. Let me say one thing in relation to that: yes, there is enormous turmoil in the region, and the very significant business contacts that I have throughout the region—and having been with a lot of those people over the last couple of weeks on a company-by-company basis, at a government level and as a group—say that it is enormously significant. The one important point I would like to make is this: the message that I am getting through all of those regional markets, particularly the ASEAN markets—and it is a great opportunity for Australia—is that, at this time of currency and economic crisis, they believe that America and Europe are looking at the ASEAN region en bloc. En bloc, they are saying that ASEAN has this crisis and, as investors from America and Europe, they are fairly nervous about what sort of further investments to make; they have a very big question mark over the region.

The very strong message I am getting from our ASEAN business, as well as from people in government, is that Australia is a near neighbour and, thankfully, our economy is fundamentally sound. Even though in yesterday's stock market there was a little bit of a drop, I believe that the Australian economy will remain sound and, to a large extent, not experience the same roller-coaster activities as our ASEAN partners, so that our economy is seen to be sound by ASEAN.

They see us having a more sophisticated knowledge of the region. That is, we do differentiate between the various markets. We can see that while the whole region is having difficulties, different markets are experiencing that difficulty to a lesser or greater extent.

Finally, I think the real challenge for Australia is that they are looking to us to be real friends at a time when they are in crisis. It is a great opportunity for the Australian people, for the Australian government and for Australian business to be able to show that we still see fundamental confidence and opportunity in those markets, and not desert them.

When we look back at this time, in say, two or three years time, if we have been able to do positive things like our IMF loan as far as Thailand is concerned and other initiatives that we can take then, in the longer term, this is going to be a very defining point in Australia-ASEAN relationships. I think it is critical that both business and government make sure that we do look in a very sophisticated way at how we can maintain and interact with ASEAN, both at a government level and at a business level.

Mr LEO McLEAY—Is there anything that you think we should do that we have

not done so far?

Mr Purnell—The first thing is to ensure that we do not just panic and overreact as business and as government. That is the first thing. I believe the Australian government has shown that it has not panicked and it has not overreacted, and that is critical. That is being appreciated within the region.

The second thing is to ensure that we do maintain a very good intelligence of what is going on in the markets at a business level and at a government level. We need to put a lot of time and effort into analysing and seeing the difficult areas and the good areas, the things that still show fundamental strength and the areas of weakness. Then, finally, I think we need to be able, where we can, to express that confidence publicly, in terms of statements that we might make as a country and also in terms of what business might do in terms of its dealings, in investment and so on. I think they are the critical things.

CHAIRMAN—Going back to when this instability started—and that was with the baht bailout—did Australia's bailout in your view give all the right signals far beyond Thailand?

Mr Purnell—It did. It is an initial step, and you will see from the report on proceedings between ASEAN and CER business leaders that one of the suggestions from ASEAN is that there might be a cooperation fund set up. We have suggested to the government that that should be examined. We have said no more: we did not endorse it and we did not reject it. We just said that we might look at it.

Clearly, ASEAN economies are looking now to a number of ways that various players can be of greater assistance but, certainly, that first IMF arrangement of the \$1 billion currency exchange was a very good first signal. It was significant to Thailand. It was significant to the region. I think we could probably give more prominence to it.

It was interesting that at the MTIA national forum here last Monday we had a guy called James Abegglen who set up the Boston Consulting Group. He has lived in Japan for many years and he still lives in Japan. He spoke at our conference. From his position in Tokyo, he had not picked up the fact that Australia had made that arrangement with the IMF about Thailand. I think it was a great first thing and seen as that, but we need to give prominence to it.

Clearly, there are conditions relating to it, we understand. If you are going to make these arrangements, it is important that the economies understand that there are quid pro quos in relation to these sorts of packages and support mechanisms that we might make.

CHAIRMAN—But would you agree that the bottom line message that Australia needs to give is that we are not just fair-weather friends?

Mr Purnell—Absolutely; that is the most fundamental message that we can give.

Dr SOUTHCOTT—Alan Oxley spoke to the committee and indicated that the tariff cuts within AFTA from Indonesia, Malaysia and Singapore had been offered on a most favoured nation basis, indicating that it was unlikely to become a bloc as such. Is that the way that you see AFTA evolving—more offering the tariff reductions on a most favoured nation basis?

Mr Purnell—I am a little more sceptical about that. I know that they have been making those reductions and they are on an MFN basis but still, if you look now at this recent crisis, I think it is understandable—just the same as it happened in Australia a decade ago in our recession—that there is a natural instinctive reaction to look inward and to have barriers and to say, ‘At this time, if you liberalise, it can cause more problems.’

Of course, as we have seen here—and MTIA has been at the forefront of this debate—when we look back, we realise that the most significant thing you can do is to proceed on that liberalisation path. We can say that with hindsight, but 10 years ago, in the middle of a recession—and there has been a lot of industrial difficulty and jobs lost and so on—overall we had no choice in Australia and I think it is the same thing with ASEAN.

While some have been offered on an MFN basis, I do not think that is universally the case. I think AFTA stands to be a very significant block, possibly, and this current crisis could reinforce that. It does make it even more significant if we can make inroads at CER in some sort of linkage with AFTA.

Dr SOUTHCOTT—One of the things with ASEAN, if you take out the role of just re-exporting into Singapore and oil, the trade within ASEAN is only about five per cent, so most of these economies really do rely on trading in the world economy for economic growth and so on. For them, I understand the pressures to become like a protectionist bloc, but surely it would not be to the benefit of those countries?

Mr Purnell—Yes, but one of the messages that MTIA has been giving to governments for quite some time is that we need to recognise that we are part of the competition for world investment and that means that there are policy reactions or policy settings that we need to firmly put in place. ASEAN clearly understand that and part of that might be some of the aspects of their current difficulties, but they are very much aware of the need to compete in the world for investment and foreign investment dollars.

Part of that investment is, clearly, if they are setting up productive capacity, there are certain tariff barriers and other non-tariff mechanisms that are being put in place as part of the arrangement. So while they do rely on those sorts of global trading activities, we have got volumes of various items that have quite significant levels of tariff, as well as other instances of non-tariff barriers. On one hand yes, but on the other hand the specific

examples show that there are very many areas where they have got local capacity that has fairly significant barriers as far as imports go.

Mr LEO McLEAY—Both governments and business have spent a lot of money, time and effort in getting Australian companies involved in the ASEAN economies. The current currency crisis has put, obviously, remarkable stresses on smaller businesses with short pockets. Should the government or business be putting some mechanisms in place to help those smaller companies out?

I recall that on the radio this morning, a fellow in Melbourne mentioned that the price of his goods on the market in Jakarta, I think, would have to go up by 40 per cent, which would price them out of the market, and that the agents up there were having difficulty getting the money to pay for them anyway. Are we in a position where the great time, effort and money that we have spent to penetrate these markets could be wiped out by the current crisis in the ASEAN economies? Should the government be looking at providing some soft loans or assistance for business to stay in those markets?

Mr Purnell—No doubt the current crisis does put at jeopardy a lot of the hard earned gains that we have made over the last five to 10 years. It does not just relate to small countries; it goes right across the board. It is very difficult when you are having 50 per cent and 60 per cent depreciations of the currency, which will mean that our exports into their market are going to be more expensive and their imports into our market are going to be cheaper. At the same time, our currency has come down a little over the last few days, so in some ways that is helping us a little in the same way.

If you looked for a government response in terms of a program or a policy, I would not be recommending that we chase that very volatile currency situation because it is highly significant and quite substantial. I do believe a very important policy initiative that the government can take at this time is to look at some form of DIFF scheme replacement. That is a proposal that we have put to the government for a long time, but I think it is very timely at this point for the government to examine some alternative to the DIFF scheme—and I know that it will not be the DIFF scheme that is going to be reintroduced or DIFF reincarnated in its exact form. I think that would be one perfect response from the government at this point.

As you know, the previous DIFF scheme does show from the government the feeling that we are in there and that we are showing some friendship and cooperation with the region at this time. It will help Australian companies in terms of project, and that has follow-on through a whole lot of subcontractors. I believe that is one important policy response immediately from the government.

Mr HOLLIS—On the currency crisis, I was going to ask the question that Ian originally asked. I am interested in your feedback on this. What surprised me—bearing in mind that you did make the qualification when you first spoke—was the suddenness of

this currency crisis. I remember, when this inquiry started not all that long ago, the witnesses who would come before us—departmental people, business people—would all speak in very glowing terms about the economy, the process and the prospects in the market.

The point Leo was making is that, for a long time, everyone has encouraged Australian business to invest there. The implication was that this was a very secure market. Hong Kong is a classic example. I was on the inquiry that looked at the return of Hong Kong to China. We went there and met all the ministers and the financial secretary. In fact, a month ago we had the financial secretary from Hong Kong before either this committee or the main committee. What he was saying then would be I suspect a hell of a lot different from what he was saying this morning.

It just surprises me. Have we, the government or business misjudged the signals? There must have been signals out there. Economies just do not turn. If it were a conspiracy theory, as some people suggest, or an international conspiracy, I do not think you would get such volatility in markets overnight. Who has got it wrong: have we got it wrong; have governments got it wrong; or have business got it wrong?

Mr Purnell—Firstly, we totally reject the conspiracy theory.

Mr HOLLIS—So do we, but it has been put out in the market.

Mr Purnell—Of course in hindsight we have enormous wisdom. You would have to say that a lot of people, certainly in business and probably in government, even up to 12 months ago were looking at some of the ASEAN economies in terms of the enormous amount of activity, say, in the building area—commercial buildings, residentials and the condominiums—and whether they were being filled.

CHAIRMAN—Sounds like Sydney.

Mr Purnell—I do not know about that. I guess in Australia we would like to think there was a lot more of that activity here, but we would not want the same result. I guess in hindsight you would go into the market and you would comment on the fact that there seemed to be an enormous amount of this sort of artificial activity in that area. I think this crisis caught most people by surprise and I do not know too many people who were predicting definitively this sort of thing.

Can we be blamed? I do not think so. At a time when financial markets and investors look at it and say, 'Hang on, there is a point here when this bubble is going to burst and we want to secure some of our investments,' they start to pull the plug. Of course, that can happen very rapidly. I do not think that you can blame people, Colin. I think the dimensions and the suddenness did surprise people. But there were some signs that people were talking a little about in terms of those areas.

I think the big concern is it would be a pity if all of the fundamental strengths of these economies—and they still have them in a number of areas—were lost. That was the point I was making earlier. We need to be very sophisticated in how we look at the strengths and weaknesses. We need to give the right messages to those governments, our government and our business people so that we do not lead people into traps, but at the same time we should not say, ‘Don’t go.’ We want to give realistic information and signals about what is happening in the market.

Mr HOLLIS—You are right in saying that hindsight is a wonderful thing. I accept that. I am not saying that I predicted anything. In the point you just made you said, ‘We should not overlook the fundamental strength of these markets.’ When I go to, say, Indonesia, or when I am lectured about how useless we are here and how great they are there—they are growing at eight per cent and this market is growing at seven per cent, and this one is going to be the next tiger—sometimes I wonder what the fundamental strength is of that market. Is it like the Tokyo stock market, which is based on the real estate of Tokyo? You have got a decline in house prices in Tokyo and the whole market is affected. Are we confident that those markets that have grown so quickly over the last few years are soundly based or is it just all a myth? Are we all kidding ourselves?

Mr Purnell—I do not believe we are kidding ourselves, but clearly it is not a perfect environment and the current situation demonstrates that. I think there have been some areas where they have been artificially kicked along, such as in some of these commercial and residential areas. Some major project areas, for one reason or another, might not have the sound economic basis that we might like. But if you look at where investments have been put—and they will continue to be where the population is and where the overall development of global markets is—I still think it is broadly in this region.

The point that I would make is that I believe it is going to be a good two or three years before this washes through the system, so it is not going to be a short-term thing. If we take a longer view, I still think this region is a very significant and key growth area in the longer term. The other point that the MTIA has always made to government and to our members is that this is a very powerful, significant area of government and business activity, but it is not the only area. We have always said that.

We have never said, as a business or as a country, we should put all our eggs in one basket. You have got Mercosur, the South American areas and other areas within the region that show growth and you have got our traditional markets of Japan and so on. I think these are all sound markets. We as an organisation have tried to encourage people to look broadly. I guess it is the same lesson: you want to spread your eggs.

Dr SOUTHCOTT—In your submission, you talked about a pragmatic foreign and trade policy and a flexible foreign and trade policy. How well do you think the white paper establishes the framework for a policy which puts Australia’s interests first?

Mr Purnell—It is a good white paper. In terms of looking at flexibility and pragmatism—at multilateral, bilateral and regional levels—and balancing some of our economic, strategic and foreign policies, as a white paper, it is a sound statement.

Dr SOUTHCOTT—You talked about tax reform as well as the issue of a broad based consumption tax, which you mentioned in one of your dot points. What other issues do you think should be addressed by tax reform?

Mr Purnell—The point that MTIA made in our recent report to government entitled *Make or break: 7 steps to make Australia rich again* is that we see tax reform as being one part of overall industry policy settings. To focus just on tax reform or industrial relations reform or looking at areas of getting our goods in and out of the country is not the way to go. It is a multifaceted approach. I know it is complex. We have argued for a long time that, even when we were involved in the tariff situation, that is the easy part. The state and federal complexities and these other areas are all aspects that we have to tackle comprehensively, and not just one area.

The other critical thing that we put in our report was how we are going to attract investment into this country—significant investment policies, agencies and funds. I think that is even more significant at this time. If you are having the crisis in the ASEAN markets that we are having, surely there are going to be people looking for safer havens. Australia stands as a very safe haven. I think the Australian government now has an enormous opportunity to look at these issues. I do not think it makes it less important that we look at some of these investment incentives, I think it makes it more important. I think that world investors will be looking to Australia. It is a great opportunity. We cannot lose that opportunity.

Mr LEO McLEAY—In your submission you talk about a strategic national development framework. The government has received reports from Goldsworthy and Mortimer. How does your framework interreact with those?

Mr Purnell—Fundamentally, very supportively; the overall thrust of what Mortimer and Goldsworthy are saying fits very closely with MTIA's submissions through the Economist Intelligence Unit's report *Make or break: 7 steps to make Australia rich again*. We would say that we have probably stretched some of those reports a little further. We have stretched some of those reports in terms of some of the investment incentives. We have certainly stretched David Mortimer's report in some areas of CRCs and the R&D aspects. We believe that stronger significance should be given there, and we have suggested 200 per cent tax incentives. So, fundamentally, it is very much in accord. We have pushed some of that a bit further.

Mr LEO McLEAY—One of the significant things that people talk about with exports is trying to get a stable dollar and low inflation to support that. R&D is one thing, but what other ways can you increase Australia's competitiveness? If you get the dollar

right, if you get inflation right, how else can you strengthen competitiveness?

Mr Purnell—It goes back to the earlier point that I was making and that is those fundamentals. We have to ensure that we do not become uncompetitive in terms of our inputs to production; therefore, we have to look at the tax system. It is a critical area. We are just shackling industry at the moment. We have a tax system that is crazy and it is not helping our competitiveness, especially our international competitiveness, at all. That is a critical area. We do need to look at our labour situation and ensure that we have maximum flexibility. We have made some good ground, but the world moves and we need to have maximum flexibility within our work force.

We also have to look at the challenges of management; ensure that there is an understanding of global pressures and opportunities in our management and training. Relations between Commonwealth and state and the impact that competitiveness or the uncompetitiveness of some of those arrangements can make are significant. It is not anything new. They are the fundamentals in terms of the competitiveness. There is also the investment environment, as we have said, of looking at ways that we can ensure that we have local investment funds as well as foreign investment funds flowing into Australia. They are some of the key items.

Mr LEO McLEAY—You mentioned training and attitudes of management which often also come from education. One of the arguments that has often been made about Australia is that we have got the best educated work force in the region across the board. Is that method of training and education of the work force here getting a bit in the past? Should we be doing different things in educating the work force? Should we be doing different things in training? Should there be more flexibility in training? What do you do with older workers and that sort of thing?

Mr Purnell—Certainly if you look, say, at the professional level, we have as good as any in the world when it comes to engineers and at that particular level—whether it is a good message or a sad message—relatively speaking, cheap. If you look at the relative cost of engineers in the Asian region compared to Europeans or Americans and so on, we come quite cheaply and highly qualified. That also goes into the trade area. We have world-class tradespeople that work in the area and have shown to have their skills. There are needs. If you look at Malaysia as a perfect example, they have desperate shortages of skilled people.

I think we have constantly got to be looking at the way that we train, at all levels. I think it is a very dynamic situation. We have just got to make sure that we do not say that what we have been doing in the past is the way to do it in the future. That goes from management right through.

Mr LEO McLEAY—The reliance in the past in Australia has tended to be on governments providing that skills base. Should that now switch more to industry providing

that skills base?

Mr Purnell—We have always said in MTIA that it is a partnership. The government has got to play a role, both in terms of curriculum development, in terms of senior levels of training and also in terms of funding. We do not in any way want to see that just being government driven. It is very much a partnership between business (a) in terms of the sorts of criteria that we want and (b) in terms of also providing funds and on-the-job training, but working as a partnership, not just one or the other.

Mr LEO McLEAY—One of the things some years ago was that government thought that the training guarantee levy was a way to make businesses focus more on providing training themselves. I am not putting an argument up for the training guarantee levy before my colleagues jump on me here.

Mr Purnell—That is good.

Mr LEO McLEAY—There were benefits in that, but there were also—

CHAIRMAN—You will not get the MTIA to do it either.

Mr LEO McLEAY—It sort of generated a mickey mouse industry in many areas—people who became trainers for trainers' reasons. Was there a germ of good in that, if it had not become overblown at the time, that might have developed into a much better training program? For instance, at present you have got everyone wanting to go and do a masters degree in this and that and something else so you have got a plethora of masters degrees being offered by universities for people who may have got a better training program out of something that you or ACMA ran that actually trains them for something that could actually make industry work better.

Mr Purnell—I think there are a couple of things. Firstly, whatever signals we get from industry or from government that says that we need to focus significantly across all of industry on training is the right signal. How you might go about it is where people will disagree. To give the signals that we need to increase our training activities is a very important first point.

How you actually force people into going into this university or this trade or this particular course can be done by financial incentives or disincentives. The market is speaking at the moment and saying, 'We oversupplied in this,' or, 'What remuneration are you getting?'

It is interesting that, in areas now in North America and in Europe, they are looking at graduates with more emphasis on philosophy and so on, so they take a person with a broader education. I am not saying in specific professions like engineering or something—

Mr LEO McLEAY—We are back to the old BA Sydney University.

Mr Purnell—It is interesting how the pendulum swings. We are getting some emphasis now that people who have just broad analytical skills can be brought into various corporations, moulded according to their own in-house management training and then skilled in various areas. The thing that we want to have is, as I say, a cooperative approach, and you cannot be too firm about, ‘This is the way forever,’ because things do change.

Mr LEO McLEAY—There is a matter that you picked up in your submission, and it might help the committee if you could explain it. You talked about a pro-development competition policy. If you have a pro some element competition policy, that would seem to be an oxymoron anyway. What is a pro-development competition policy and how could that perhaps upset the balancing competition?

Mr Purnell—The point that we were making there is that there is a feeling—it might be more in the psyche than necessarily being individual experience—that the ACCC’s competition policy is not necessarily the most conducive towards critical mass within Australia so that we can then attack global markets. That is the core of the point that we are making: that, in terms of the activities of the ACCC, we have to do everything we can to ensure that companies can aggregate. The ACCC does have an element in its charter that looks at import competition, but we would encourage the government and the ACCC to do everything they can when they look at competition policy to realise that Australia is very much part of the world market scene—the world global environment. To that extent we have to ensure that we get enough aggregation so that companies can be players in such a world market.

Mr LEO McLEAY—Are you saying it is more like a national interest clause or that the ACCC’s remit should be more than just this market of Australia—the ability of Australian companies to be competitive on a global market?

Mr Purnell—Yes. As I say, there are elements within the ACCC’s charter that talk about if an industry or a sector is open to import competition and what aspect that has. But very much, yes, we cannot just say, ‘Let’s look at Australian competition law within the Australian context.’ We have to look at Australian competition law and how that is going to affect us within global markets. That is something that is a very real issue with Australian business. If you look across all the sectors, certainly in the areas of manufacturing and services, how many of those companies can be seen to be world players? If we really are going to play we have to start to be significant in a global context and not just in a national context.

Mr LEO McLEAY—Are there any things that the ACCC is doing now that are getting in the way of that?

Mr Purnell—As I say, I think there is a perception within industry that it is not as friendly towards this increased aggregation as it might be. They do have a charter about import competition, but I think the government and the ACCC have a job to do in terms of the perception it has. In some instances, some of the particular examples—

Mr LEO McLEAY—Can you give us an example?

Mr Purnell—I would prefer not to. I think there are some areas where it is probably confidential to the activities of the ACCC.

Mr LEO McLEAY—But there are examples?

Mr Purnell—There are examples.

Mr LEO McLEAY—Large or small?

Mr Purnell—Of course they always relate to larger situations than to smaller.

CHAIRMAN—Thank you very much for the input from the MTIA. I will summarise. What you are saying is that the ASEAN-Australian relationship is a very important one; that it is not of itself the only relationship—we need to balance that with other relationships—that there is within ASEAN a very large degree of uncertainty and volatility at the moment in economic terms which has the potential to flow over into Australia; and that in the short to medium term there needs to be some Australian governmental policy adjustments to cope with this. Is that really what you are saying?

Mr Purnell—Yes. While we look at ASEAN and Australia within the global context, I would still want to say that AFTA-CER and ASEAN are very significant. I am not diminishing the importance of that, but clearly it is part of a global environment. You talk about policy adjustments. I would put it that, with policy adjustments, I think there is a great opportunity for some policy initiatives: taking some of the things that we are looking at and building on them so that we take advantage of the current circumstances.

CHAIRMAN—But at the same time countering some of the pressures that are building up as a result of the change of circumstances?

Mr Purnell—Yes.

CHAIRMAN—Thank you very much for your time. Once again, we apologise for delaying you. Thank you Hansard.

Luncheon adjournment

[2.03 p.m.]

SHERIDAN, Mr Gregory Paul, Foreign Editor, The Australian Newspaper, 2 Holt Street, Surry Hills, New South Wales 2010

CHAIRMAN—Do you have any comments to make on the capacity in which you appear?

Mr Sheridan—I am the Foreign Editor of the *Australian* newspaper, but my comments should not be construed as the policy of the *Australian* newspaper; they are just my own.

CHAIRMAN—I should point out that, whilst this committee does not ask witnesses to be sworn or affirmed, we are part of the proceedings of the parliament and everything that flows from that. You have not made a written submission and I assume you do not want to do that. You might like to make an opening comment, but we are particularly interested in your book, *Tigers*, and the personalities in terms of ASEAN and the degree to which some of your comments might have taken on a new dimension most recently and perhaps even in the last 72 hours. Would you like to make a short opening statement, or how would you like to play it?

Mr Sheridan—I am happy to do that. I would like to make three opening points. Firstly, the changes that we made in the 1980s reversed all the fundamental decisions we made in the 1880s about how we were going to live. They were all centred on Asia, namely, abandoning White Australia in a substantive way, opening ourselves to globalisation, doing away with industrial protection and centralised wage fixation and so on. I do not think the Australian nation has yet realised what a profound turning point in our history that was, and it was all centred on engagement with Asia.

The second point I would make, of particular relevance to this inquiry and ASEAN, is that we are a very peculiar country because we have four regions of enormous importance to us: North America is our critical security partner and contemporary cultural partner, North-East Asia is our overwhelming trade partner, Europe is our history and South-East Asia is our most important security environment and will increasingly be important economically. The only point I would make about that is that those things do not reinforce each other so there is a danger of getting a lack of coherence in the public mind about what embodies long-term national interests, and I think South-East Asia will be increasingly important to us.

As to the current currency crisis, which is the third point that I will make very briefly, I remain—and I would be very happy to discuss this in detail—completely optimistic about South-East Asia economically. Markets, we know, are driven by fear and greed, and frequently stupidity. They stampede and herd with herdlike unanimity. They have wildly overcorrected beyond anything justified by macro-economic mismanagement

in South-East Asia. There are macro-economic problems resulting from 10 years of eight per cent growth in the South-East Asian economies. They need a bit of adjustment. They were running overvalued currencies. They did not have sufficient prudential supervision of the finance sectors. They all had property bubbles. These are management problems not unique to South-East Asia.

The devaluations that we have seen are wildly in excess of anything necessary to respond to that, but I think the South-East Asian nations have all taken appropriate policy measures to deal with this problem. They may not have gone far enough, but they have all gone in the right direction. They are going to get fantastic competitiveness benefits out of their devaluation over time—a devaluation of 40 per cent is going to give you fantastic competitiveness benefits over time. My prediction would be—and it is so crazy to make predictions—that in three years time we will hardly even remember this currency crisis.

I expect the region to resume solid growth—maybe six per cent instead of eight per cent. The markets can be and are irrational, but they are rarely irrational for a very long time. In due course the money will come back to South-East Asia because the bargains will be there and the attractions will be there. I would leave it at that for an opening statement.

CHAIRMAN—We will come back to the currency crisis and all of that. First of all, in that light, in your book *Tigers* you talked about a number of the personalities in most recent times: Suharto, indirectly through the environmental problems that have been generated in Indonesia and within ASEAN; and of course Mahathir in relation to the ringgit. Really there is no real personality in Thailand in relation to the baht crisis. What does all of that mean in the short term and in terms of succession for, say, Mahathir and Suharto?

Mr Sheridan—I do think there is a succession problem in all four of the countries currently experiencing a currency crisis: Indonesia, Malaysia, Thailand and the Philippines. They mean different things to the leaders in each country, though, I would argue.

In Indonesia, one of Suharto's strengths has been that whenever the Indonesian economy has come under threat he has responded decisively and quickly and in an orthodox fashion. There has been a lot of concern in recent years that Suharto has allowed too great an indulgence to the first family and to cronies of the government in terms of rent seeking activities in the Indonesian economy. But Suharto's record, from the first day that he took office, is that he really places a high value on his economic credibility. Indonesia is conscious of the fact that it is regarded as a country which uses aid funds very well and very responsibly. In the late 1960s Suharto basically handed over the running of the economy to the so called 'Berkeley mafia', the technocrats who were market friendly, orthodox economic graduates. That is his instinctive reaction whenever there is a crisis and that has been his reaction in this crisis. He has restored the position of the technocrats against the economic nationalists and he has sought IMF guidance.

He may not have gone far enough. There are various symbolic things he has not done—in particular, ditching the national car plan, which everyone agrees is against the spirit of liberalisation and market friendly policies. Although I think Indonesia is gripped with a long-term succession crisis and a deep question of stagnation and failure of evolution in its political system, nonetheless, paradoxically, I would argue that in the short term the currency crisis probably plays to Suharto's strengths and Indonesians will look to the Bapa for leadership during a crisis.

Dr Mahathir, on the other hand, has suffered in the currency crisis. Succession in Malaysia is much clearer than it is in Indonesia and much more stable. It is quite clear that the Deputy Prime Minister, Anwar Ibrahim, will succeed Dr Mahathir unless there are really cataclysmic shifts in Malaysian politics. We do not know when that will happen, but Dr Mahathir has, in his decade and a half of government, generally followed very orthodox and very pragmatic economic policies. Corruption has been under control by South-East Asian standards. It has been a very market friendly place and a very investor friendly place.

His traditional anti-Western rhetoric has never really translated into anti-investor policy or even anti-Western security policy. But, in this particular case, he did overplay his hand and he did exaggerate the rhetoric. Particularly unfortunate were his comments which suggested that possibly some financiers who may have been Jewish may have been motivated against Muslim countries. That comment is offensive in principle and wrong in fact, and was particularly damaging with the standing of Malaysia and South-East Asia generally in the financial markets. Dr Mahathir's position as a regional leader has been very greatly weakened by a perception throughout South-East Asia that South-East Asia generally is paying a price for his exaggerated anti-Western rhetoric.

Very briefly, on Thailand and the Philippines, I think the Chavalit government is in crisis. Again, the key factor drawn from the Thai response to the crisis, however, is that, although they have been slow and dithering, their response has been basically orthodox. They did accept the IMF conditionality: that is the key fact about the Thai response to the crisis. They did accept the conditionality of the IMF rescue package. They have retreated from an oil tax, but I think they will probably offer the IMF alternative fiscal measures still to achieve their budget surplus and so on.

But there is obviously a crisis in the Thai political system because it is at a transitional moment. The Thai people are deeply committed to democracy. But some of their political class are leftovers from the old days of military rule and have not really adapted to the demands of globalisation and of a modern political system.

I think the Philippines will suffer until the presidential election is held. President Ramos has been extremely effective and has responded well to this crisis. He is a very good president. He is as good a president as you could possibly hope for in the Philippines, but he cannot run again; he will not run again. That means that probably from

the end of this year until May you will have effectively a lame duck administration in the Philippines. It would be very hard for him to get anything controversial through the congress in that period.

It will be a critical question who replaces him. All the candidates say that they will follow his market friendly policies, but there are a lot of concerns about the populism of the Vice-President, Joseph Estrada, and the grip of some of the other candidates like Senator Gloria Macapagal-Arroyo. So that uncertainty in the Philippines is, in a sense, just the uncertainty of democracy, which I think you have got to put up with, as it were.

Mr SINCLAIR—I was interested in your perspective of the present currency crisis. It seems to me that, while I would accept that it has been fed by media hype, there are going to be consequences that are more profound than I think you have suggested. I wondered how you perceived the fact that it is now becoming more general. You have a lot of their fundamental decisions affecting investment, for example. I do not think the offshore patrol boat is necessarily one. A number of purchasing decisions are going to be affected.

The CBD land values are obviously a problem, but more fundamentally their banks seem to be a problem. If you get some of those banks failing—which seems possible, and I gather the Japanese banks have also been significantly investing there and they are not too stable either—there could be consequences which might lead to some further deterioration in various regions. Tourism is going to go down. The number of students in the region coming into Australia and, for that matter, going abroad is going to go down. Infrastructure development is going to slow down.

I worry that there is not going to be an easy way to put a flaw into all the hype and emotion that is generating the present crisis, which seems to be building momentum that is not like the October 1987 fallout but is still very worrying in its implications. Do you not think you are being a bit optimistic? I am sure in the medium term you are right, but I think there is a short-term fallout that is going to be a lot more profound.

Mr Sheridan—Mr Sinclair, I would be reluctant to pit my judgment against yours, given your long experience in this area and so on. I would say to you honestly that I think all those things are true. In terms of defence purchases, for instance, all the region is involved in defence modernisation programs and everything is going to be 30 or 40 per cent more expensive for them. On the other hand, given that we are getting so little of their defence export market anyway, that is probably not going to affect us very much.

It is true we will be more expensive as a destination for tourists and students. On the other hand, I am not exactly sure what is going to happen to the Aussie dollar. We may end up more expensive than we were, but even less expensive in comparison with the United States, which I guess is our main alternative market.

It is true that the markets are inherently unpredictable. I totally accept that. I do think the markets are irrational. There was serious macro-economic mismanagement and structural imbalance in all four economies and there was definitely a case for a correction. The same is the case in Hong Kong. I think it is quite clear that the Hong Kong dollar is overvalued. There is a case for a correction. It is very hard to maintain a peg to the US dollar when the US dollar is rising so much and the Chinese renminbi has devalued so much. It is extraordinarily difficult. If you add into that poor prudential supervision of the financial system and differential interest rates between domestic interest rates and US interest rates, and the danger of unhedged loans and so on, it is almost inevitable that you are going to get something like this.

Frankly, I do not think there is any economic reason for this crisis to continue or to become more widespread. The Japanese banks do have a certain exposure in South-East Asia, particularly in Thailand. It is very hard to imagine that all of that money is unrecoverable or unserviceable. But the exposure of the North-East Asian economy generally to the four South-East Asian economies in crisis is actually not very big. Altogether, those four economies account for significantly less than 10 per cent of the Japanese economy; they account for about four per cent of Japanese corporate earnings.

The Japanese banks are under much more domestic pressure than they are pressure resulting from the South-East Asian crisis, but the Japanese have shown a reluctance to force their own corporations to pay for the adjustment. In other words, they make the taxpayer pay for the adjustment. Japan is rich enough to do that.

It is much harder for the money markets to impose the kind of hit on Japan or Korea that they have imposed on the Philippines or Malaysia, for many reasons. The Philippines and Malaysia are infinitely smaller economies than Japan or Korea. Oddly enough, in a sense, their financial markets are more open. The Korean and Japanese financial markets are protected by a degree of regulation which the South-East Asians, to some extent, are not. You cannot really take a whack at a Korean asset because it is owned by the Koreans, basically. The overall macro-economic positions of the North Asian economies are so much stronger—they have much smaller current account deficits or, in the case of Japan, a huge current account surplus, enormous domestic savings and investment pools and good levels of international reserves.

Having said all that, it is still possible that the markets could just decide they hate Asia. In terms of this inquiry even, there is a question here. I think ASEAN has misplayed the perception politics of this very badly. I am a great admirer of ASEAN. I am a lifelong member of the ASEAN fan club, but I think they have completely underestimated the trouble that they can cause for themselves by mismanaging perceptions in the West about ASEAN, and because the relative weight of the North-East Asian and the South-East Asian economies are not really all that well understood in the West, they have given the whole East Asian region, as it were, a bad name.

Accepting Myanmar for membership of ASEAN, the terrible mess that occurred in Cambodia, the smoke haze crisis and the fact that it seemed to come about from bad policies in Indonesia and Sumatra, the currency crisis and then a bit of really foolish rhetoric from the Malaysian Prime Minister have combined to leave a really bad taste in New York, London and Frankfurt. I think that is very poor policy on ASEAN's part. It does not really relate to economic management; it relates really to the politics of perception.

Mr SINCLAIR—The other thing that strikes me as being a real problem for us is the extent to which corruption, in whatever form you define it, is rampant in so many of those countries. Do you have a view as to whether or not, out of this fallout and IMF dictates, there is any chance of containing some of that corruption? It is in a different form in most of those countries, but whether it is Thailand or Indonesia or Malaysia or the Philippines, it is certainly very apparent and it is one of the factors that contributes to the increasing gap between the haves and the have-nots. But there are certainly a lot of other factors. Have you a view about corruption and what we would regard as inappropriate business practices and the fallout from any IMF directions?

Mr Sheridan—I think you are right. I think corruption is a key issue across South-East Asia. You will get an improvement in the situation as a result of this shake-out. It is one reason this is very painful. South-East Asians have developed in recent years an understandable sense of pride in their own achievements and a great dislike of being lectured by, for shorthand terms, Caucasians. They are very sensitive about those kinds of lectures. But, on the other hand, corruption is a real economic and political problem in every one of those societies. It is a major economic inefficiency. It is a major disincentive to foreign investment because the local crony is so much better placed than the foreign investor. So it is a major lack of an investor friendly climate, even though up until now they have been able to get away with that because so much foreign capital has been flowing into those countries. But now they will have to create more investor friendly climates.

One element of that will be reducing the role of corruption. It is also very hard because it means the political systems will have to change—not that the West is trying to impose parliamentary democracy on all of South-East Asia, although the Philippines and Thailand of course have a genuine and heroic commitment to democracy, but rather because, if they are going to get the benefits and advantage of globalisation and big international capital flows, they have to have a political system which is capable of dealing coherently with those big international capital flows. And that involves reducing the role of corruption.

You cannot eliminate corruption altogether, certainly not from South-East Asia, perhaps not from anywhere, but the things that are critical are things like legitimate tender processes, reliable courts in commercial matters, a reasonable chance that a local party will lose a court case against a foreign party, that you can enforce your contracts and so

on. I think that, out of all this, in each of those countries, the forces arguing against corruption have been strengthened. And it is not something we are trying to impose on them; this is a vibrant domestic debate in each of those societies.

I as an Australian journalist would never dream of being as critical of the Chavalit government as the *Bangkok Post* has been over the last couple of weeks, and corruption has certainly been high in their concerns. So I think you will get movement forward. You will get positive movement out of this crisis on the corruption issue, but it will be painful and resisted and piecemeal and there will be two steps forward and one step back and all that sort of thing.

Mr HOLLIS—You may have raised the issue, and if you have raised the issue please cut me off. In the major countries we are talking about there, we have an ageing leadership, we are going to have generational change over the next couple of years—be it Indonesia, be it Malaysia or the Philippines where Ramos cannot stand again. What impact do you think that that is going to have? Is it going to be an opportunity to correct some of the issues that you have just mentioned? Is it just going to go on as before with the new head or, say, in the case of Malaysia, are we going to see a fundamental reshift or refocus?

CHAIR—Greg has covered it.

Mr Sheridan—There are couple of slightly different aspects I could come in on there, I suppose. Just two thoughts, I guess. One is the deepest crisis in the region of succession is in Indonesia. This is a real systemic long-term crisis because they have only ever had two presidents, they have never had a peaceful transition, and there is no mechanism in place for the succession and no idea of who the successor will be.

I think the choice of Vice-President next March—assuming the President runs again, as I am sure he will, and assuming he is re-elected, which I am sure he will be—is absolutely crucial because it will be an indication of what direction is likely to be taken after Suharto, because there will be a very real chance that he will not see out his whole term. In short, I think if he chooses the incumbent, Try Sutrisno, that is a choice for stability and continuity and a good chance that Indonesia will get through things without too much trouble.

Sutrisno is accepted by the army, he is a Javanese Muslim, he is an orthodox person, he is a likeable public personality and he would pursue orthodox policies. On the other hand, if the President were to choose his daughter, I think that would severely undermine international confidence and domestic confidence in the succession question. Then there is a range of other candidates that he might choose. But the tragedy of that situation is that it is so personalised, and you would hope that a country as big and sophisticated as Indonesia would move to a situation where institutions were more important than personalities.

That was the rationale that Lee Kuan Yew gave when he retired, because he said, 'In a young country like this, personalities are always stronger than institutions and it is important that we try to build up the institution.' So he retired and allowed someone else to become prime minister.

If I could just make a brief comment on Malaysia, I think the Malaysian system is fine; it is in good shape. It is not exactly a liberal democracy as we would understand it, but I do think the elections are legitimate and honest and open. They are not fair, the opposition does not get a fair shake in the media and so on, but they are not rigged elections. The system is fine, and UMNO has chosen its successor and everyone is clear about that. It is Anwar Ibrahim.

Up until now, Dr Mahathir has given very good leadership in Malaysia. As I said a bit earlier, I think his comments in this currency crisis have been very damaging to his country and to his standing as a regional leader. I think under Anwar Ibrahim we would see broad continuity of policy but I think it is fair to say you would see a great toning down of the anti-Western rhetoric.

It may partly be generational. After all, Dr Mahathir, a man in his 70s, lived through British colonialism, Japanese occupation, and a racial system within Malaysia in which the British were on top, the Chinese were in the middle and the Malays were on the bottom. I think that sears itself into a person's consciousness and soul. Anwar Ibrahim, on the other hand, has grown up in a self-confident, successful Malaysia, where Malays have routinely been successful, and I think he has a different outlook. Without using too much psychobabble, that is partly a generational thing and it will probably be easier to deal with a younger generation of Malay leaders.

Dr SOUTHCOTT—Mr Sheridan, one of the things perhaps contributing to the military modernisation in ASEAN has been the confusion about what the role will be of the United States in the post-Cold War era. In your book you said that the United States administration had contributed quite a lot to that by its confusing signals—on one hand the Nye report arguing coherently for a continuing role, and then decisions like the closure of the US bases. Has that changed in the second Clinton administration? Are the signals any clearer now? What is the feeling within ASEAN on the US role in the future?

Mr Sheridan—I think it has changed a lot in the second Clinton administration. I really think in a way there have been three Clinton administrations. You had the first Clinton administration when Clinton was first elected in 1992 in which he took a totally revisionist view of Japan, a totally strategic trade theory view of trade with North-East Asia, and a confrontational view of China over human rights. It was terribly unsuccessful.

For the first two years of the Clinton administration, foreign policy was an area of massive failure for the Clinton administration, and eventually of deep embarrassment for them, and it became a domestic political issue. The level of incompetence and

embarrassment, not only in East Asia but in other areas of American foreign policy, became very embarrassing, and became domestically embarrassing.

After the Republican slaughter in the mid-term congressional election, there was a complete sea change in American policy and I think that really was the second Clinton administration. It became a kind of Republican administration and it even adopted broadly Republican foreign policy.

The third Clinton administration de-emphasised conflict with Japan over trade and de-emphasised conflict with China over human rights, and I think it put together a pretty good North-East Asia policy by the end of its first four years in office. The new Clinton administration has continued the good North-East Asia policy, and I think the Hashimoto-Clinton accord on security and so on has firmed up the US-Japan alliances very satisfactorily. The approaching visit to America by Jiang Zemin is a very constructive move on US-China relations.

However, throughout that whole time the United States has basically neglected South-East Asia. In its first couple of years it ran a confrontational policy towards South-East Asia over matters of trade—not nearly as confrontational with Japan, but nonetheless insisting on trying to get labour clauses and environmental clauses included in trade agreements which the South-East Asians were very unhappy about, and harassing South-East Asian nations over matters that were not directly related to trade policy in trade negotiations.

It more or less dropped that, but it has not picked up any constructive policy towards South-East Asia. At the same time, the absence of the Cold War has left a strategic vacuum in American thinking about South-East Asia, manifested most clearly in its absence of constructive policy towards Indonesia. This vacuum unfortunately has been filled by increasing congressional activism on human rights, labour rights, environmental matters and, in particular, East Timor in respect of American policy towards Indonesia.

I would say this is one of the most important elements in South-East Asia today, because Indonesia traditionally, as a non-aligned country, had a somewhat ambivalent attitude about the American strategic presence in South-East Asia. The loss of the American bases in the Philippines concentrated the Indonesian mind very significantly. There was a low-key semi-private change in the Indonesian attitude towards the American strategic forward deployments in South-East Asia. Indonesia became supportive of the American military presence; in my view, partly with the shadow of China looming always in the Indonesian mind.

This is a very important strategic change and an enormously positive one and very, very helpful for people who want to keep America strategically engaged in South-East Asia. In my view, America is playing with fire in risking its relationship with Indonesia over a whole lot of issues which the administration is not developing a coherent position

on, but which it is simply allowing to burn. At the same time, of course, you have had the involvement of the Riady family in the White House fundraising scandal, which has given a patina of negativity to every aspect of the relationship with Indonesia.

There is some evidence that they are starting to change, not least because of representations by the Australian government over these matters. I think that evidence that they are changing is very constructive, but they need to change, because I think in treating the Indonesian relationship in an insouciant fashion, and not paying much attention to it and allowing the agenda to be set by congressmen with axes to grind, the administration is really playing with fire over its position in South-East Asia.

The currency crisis could feed into that. I think on the whole, you will see a very orthodox response from South-East Asia to the currency crisis, but you could see South-East Asian nations and leaderships tempted to anti-Western gestures, along the lines of Dr Mahathir. You could see that for domestic political reasons. Rejecting the American strategic presence would be one, as it were, non-economic way for South-East Asian leaders, if they wished, to make an anti-Western gesture.

I think the American engagement with South-East Asia needs far more conscientious and detailed attention from the United States. It is an important message that we send to the United States that they need to pay more attention to Indonesia and South-East Asia more generally.

CHAIRMAN—Could I just come back to the fires in Indonesia and Malaysia. What impact, if any, do you think that has had on their attitude to environmental issues and pollution generally, or is it something that is just going to wash over in the fullness of time? Do you see that as having an impact on ASEAN as such?

Mr Sheridan—I do. I think it has had a substantial impact. It has been a very rough six months for ASEAN, there is no doubt. I think it has probably been the roughest six months they have had since the Vietnam War, when you consider everything: the mess-up over Cambodian membership; the fall-out from Myanmar membership; the devastating currency crisis; and the devastating fires. Taken all together, it has been a rotten six months for ASEAN.

Environmentalism is an issue which is of rising political concern right across South-East Asia. There is a general correlation: the richer the country, the more it is concerned about environmental matters. I think there are no shortcuts in this environmental correlation; that is to say, you cannot expect a very poor country to be as concerned about environmental matters as a very rich country.

Again, it is easy for people in developing countries, especially leaders, to resent very deeply lecturing by rich countries who never worried about pollution when they were in the throes of rapid development. But what is happening, which is much more

constructive, is a domestic concern for environmental management and environmental wellbeing in each one of these countries.

It was very unusual to see the Singaporean press so publicly critical of Indonesia over these forest fires. It was extraordinary to see President Suharto twice publicly apologise to his neighbours over these forest fires. These fires are a result of bad policy—bad plantation policy, a conscious burning off and a lack of enforcement of central policy decisions in the Indonesian provinces—and they have damaged not only the Indonesian environment but also the environment of neighbours. I think they again help to propel the environmental issue to a higher level in the hierarchy of issues. All the people arguing for political change in Thailand, Malaysia and Indonesia will be arguing that the need to manage the environment better is one of the reasons they need to renovate, modernise and make more representative their political system. On the other hand, in very poor countries in South-East Asia, such as Cambodia and Laos, I do not think you can expect to see much environmental consciousness.

Dr SOUTHCOTT—What is your view of using the ASEAN Regional Forum as an arena to discuss territorial disputes, especially with the South China Sea?

Mr Sheridan—I think it is very good for that. The ARF is a very useful and hopeful body and we should make every effort to make it successful. Sometimes I think comment about the ARF is just a fraction unrealistic because, while it is an enormously useful dialogue body, it is not to be remotely compared with an alliance system. Security is still fundamentally guaranteed in this region by the American alliance system. Other alliances are still even more important than the ARF. In my view, I think the five power defence arrangement is more important to Australian security than the ARF. The agreement to maintain security with Indonesia is more important to Australian security than the ARF.

Nonetheless, the ARF, if placed correctly in a hierarchy of institutions, is extremely valuable as a dialogue body. It brings together all the major players, and ASEAN—by being a bit more assertive than we expected it to be in determining that it would raise the South China Sea issues at the ARF, even though China did not want the issues raised in a multilateral forum—in a classical multilateral way took advantage of the virtual equality of multilateralism to get the issue on the table, whereas China wanted the issue dealt with bilaterally because it is so much bigger than any bilateral partner.

Backed by a tacit show of American force, the Chinese essentially backed down in the South China Seas and the issue was pacified again. But competition for resources is going to be very important in this region. The South China Seas remain a serious territorial dispute. You could see China become more assertive there again either as a result of domestic political considerations or as a result of perceiving an opportunity if there was American inattention or if ASEAN became totally enfeebled. Up to this point, you would have to say the ARF has played a very constructive role in workshopping the

South China Seas and calming the situation down. It is very labour intensive; you have 50,000 conferences for one inch of progress. But, as they say about security, there is no such thing as empty talk.

CHAIRMAN—I have two final questions. The first one is in relation to AFTA-CER vis-a-vis APEC. Do you see one complementing the other, or do you see one superior to the other? How do you see that relationship? The final question is: what do you see in relation to Cambodia, both domestically and in terms of the future stability of ASEAN?

Mr Sheridan—AFTA-CER is really one of the most constructive dynamics that we have going in the region. The truth is that it probably will not deliver enormous economic benefits. In the long run, it would be a wonderful thing if AFTA and CER were fused. It is very unlikely that that will happen in the short term for a whole host of reasons, not the least of which is that the currency crisis will make everyone in South-East Asia reassess the pace and dynamic of liberalisation and so on and we are still a very big economy compared with the South-East Asian economies individually. They would be a bit worried about joining a customs union or a free trade area with us and so on.

Nonetheless, I think it is absolutely a fundamental starting point of Australian national interests that we are going to live next to South-East Asia forever. We have to be on good terms with South-East Asia if we possibly can be. There is an overwhelming need for institutional structures which bind us to South-East Asia and bind South-East Asia to us. There are people in the region who would like us excluded from the evolving regional architecture. It would be absolute madness for us, in light of the currency crisis, to think that South-East Asian engagement does not matter. Almost nothing is more important to our long-term future than South-East Asian engagement, and in the long run I think those economies are a very good bet.

I do think AFTA-CER can be complimentary to APEC, especially because it is not likely to actually happen in the short-term, and even with the size of the South-East Asian economies at the moment and the size of the Australian economy all put together we would still not result in significant trade diversion from the point of view of the United States, the European Union or Japan. So it would not be a big negative for any of those countries, but it would have enormous symbolic significance for Australia and reasonable economic significance because, in the long run, the South-East Asian economies are a good bet.

I said at the time I thought our response on Cambodia was a bit weak. I am not a bit hung-up about not having close political relationships with countries which are not democracies. For instance, I think it is absolutely overwhelmingly in our interests, good in principle and contributes to constructive change for us to be intimately associated with Indonesia. But I do think the international system must retain an ability to administer a punishment for a grossly anti-democratic action.

We invested a lot of money and a lot of effort in the United Nations elections. We might think Prince Ranariddh is a bit eccentric but the fact is he won those elections and Hun Sen, a former Khmer Rouge commander, overthrew him in what was a straight and classical coup d'état. I think our response was a bit weak. I think that has been demonstrated by the fact that Cambodia is still not a member of ASEAN and the Hun Sen government is not allowed to be seated at the United Nations.

I think ASEAN really made a mistake in trying to welcome in Cambodia, Myanmar and Laos prematurely. I think their intentions were good. They felt that by welcoming them into ASEAN they would influence the way they developed in the future, but I think they just made a mistaken call in thinking that those countries were ready for ASEAN membership.

We will have elections in Cambodia in May. It is very important that we put the maximum pressure on Hun Sen to run decent elections. It is almost inconceivable that he will run truly decent elections because he did everything he could to interfere with the honesty and integrity of the elections last time. The best estimates I saw were that his party was responsible for the murder of about 100 Funcinpec activists during the last election, and that was when there were literally armies of United Nations personnel watching what was happening.

I do not think we can go on punishing Hun Sen, as it were, forever, but we should have a scrupulous policy of no military aid whatsoever, no direct government to government aid and limited humanitarian aid delivered through non-government organisations. I think while ever Hun Sen is in charge, Cambodia will be a source of instability in South-East Asia. A lot depends on what happens in Thailand. It may well be that elements of the Thai armed forces will resume illegal cross-border trade.

It may well be that Hun Sen is incapable of running a stable regime across the whole of Cambodia. I think the outlook is very negative there. You are likely to see considerable illegal narcotics trafficking and other contraband trade across the border with Thailand. It is almost inconceivable that a coherent political system can be established other than if Hun Sen tries to create some sort of reincarnation of the old Stalinist regime that he used to run. So I think it is a real mess there.

I do not think our involvement in the peace process is worthy of any criticism. I think that was alright, but we had to send a message to Hun Sen that this kind of behaviour was unacceptable. I think he helps give South-East Asia a very bad name.

CHAIRMAN—Should Australia be pressuring to continue to be increasingly involved in the lead-up to the elections and in the monitoring of the elections?

Mr Sheridan—I think we should be involved in the monitoring of elections and we should put maximum pressure on Hun Sen to observe basic norms of human rights

during the election. I think we should be quite hard-headed about the fact that it is almost inconceivable that Hun Sen will actually allow a fair election. It is almost inconceivable to me that he would allow himself to lose two elections in a row, and when he lost the last one he refused to give up power. So I think there is a role for us in putting political pressure on and in monitoring the election.

I think we should be hard-headed and realistic about the fact that we are dealing with someone with a lot of form here and with no indication of any democratic instinct whatsoever and that we ought not to be giving fake benedictions of approval over an electoral process which is almost certainly going to be a sham. In fact, I think we ought to be quietly persuading the ASEANs that the closer they are associated with Hun Sen the more they continue to damage their reputation internationally. That is a decision they have largely taken themselves up until now.

I do not think we should see ourselves as primary players. We were primary players in the previous peace process. I think this is a very different situation. We ought not to be primary players; we ought to restrict our aid in the ways I have suggested. We ought to try to monitor the election and all that sort of thing, but I think you have to be realistic that the prospects in Cambodia are very, very poor and our ability to influence them are quite limited.

CHAIRMAN—Don't you think that Australia's credibility could potentially be lost if we did not continue to be involved? You go back and have a look at the Sanderson involvement, et cetera. We prided ourselves as a country on establishing a degree of stability in the country, albeit only a degree. Wouldn't we lose some credibility if we did not really become involved in that monitoring and future follow-up in terms of Cambodia?

Mr Sheridan—It is a complex question and a complex judgment call. There are substantially good arguments on both sides. But let me put it to you this way: Hun Sen has annulled our work. Hun Sen has overthrown the contents of the peace process and peace agreement which we brokered. Therefore, we cannot simply go on with a desire to claim that it is still a success, even in the consequence of its overthrow. That is not logical.

I do accept the point that we ought not to simply throw up our hands and run away altogether. Therefore, I think there is a role for limited humanitarian aid, a role for putting public pressure on, and that the basic norms of human rights be observed. Certainly, if there are international election monitors allowed, and I am sure there will be, we should furnish some of them. I do not think the circumstances are propitious for us to play a lead role in this. I think ASEAN are going to be the lead players, but I think there will be very serious consequences for ASEAN's own standing with the rest of the world, if it is seen to be coddling Hun Sen.

I think you have to accept that Hun Sen is intractable. It is not up to us to say that he has to go or anything. On the other hand, his presence and the political culture which he represents puts very severe limitations on what we can do. I think our role in the Paris peace process was entirely honourable, but we cannot really claim a continuing mandate from that because it has been, in effect, overthrown by the coup.

CHAIRMAN—I understand the AEC is doing some preliminary work already in terms of the electoral process. Greg, thank you very much. Before you go, I would just like to mention to you, taking off this hat and putting on my treaties hat, that you may not have read anything yet—maybe you are looking at it; maybe you are not interested—but there is a very important maritime delimitation treaty bilateral between Australia and Indonesia, which is being debated at the moment through the treaties committee. Can I just offer that as something you might like to look at?

Mr LEO McLEAY—Sounds like an ad.

CHAIRMAN—It is an ad—Greg Sheridan should be writing on some of these things, I would suggest—in that they are water breaking rather than ground breaking initiatives on the part of both countries, from an international law of the sea point of view, and it has important bilateral, diplomatic—

Mr LEO McLEAY—I just did think of a question, Mr Chairman.

CHAIRMAN—Go ahead.

Mr LEO McLEAY—You may have answered this while I was not here. If you did, just say yes and forget about it. Do you see Suharto's suggestion that he wants to have canvassed a broader constituency for himself for accepting the nomination of Golkar for another term in the presidency as something deeper than just a public relations exercise or is that all it is?

Mr Sheridan—No, I would say to you honestly, Mr McLeay, I really think that that is just a public relations exercise, and the President has really—although I think his historic achievements are enormous and he is truly a great man in South-East Asian history—saved his country from famine and civil war. But I do think he has put a roadblock in the path of political evolution of the political system in Indonesia. The recent election, which was officially described as a festival of democracy or something, was really extremely undemocratic, and I think the whole presidential nomination system now resembles a wayang kulit puppet play, and there is about as much spontaneity and it is about as unpredictable as that.

CHAIRMAN—Thank you very much indeed.

Mr Sheridan—Mr Chairman, if I can just say thank you very much for inviting me here. It is a great honour to speak to this committee and I appreciate it very much.

CHAIRMAN—Good. Thank you.

[2.57 p.m.]

STOECKEL, Dr Andrew, Executive Director, Centre for International Economics, 88 Northbourne Avenue, Canberra, Australian Capital Territory 2601

CHAIR—In what capacity do you appear before the committee?

Dr Stoeckel—I am the Executive Director of the Centre for International Economics. As to the capacity in which I appear before the committee, I guess I am representing the CIE on some research that we have done on AFTA and CER, and at the invitation of this committee.

CHAIRMAN—Thank you very much. We have received the CIE written submission. I should ask you on the *Hansard* record if there are any amendments, errors or omissions in terms of that written submission.

Dr Stoeckel—Not to my knowledge, no.

CHAIRMAN—All right. Did you want to make an opening statement?

Dr Stoeckel—Just very briefly. You have already heard from Leigh Purnell earlier this morning when he was here before this committee. Basically his organisation was the prime mover in commissioning this work anyway, and he would have run through the numbers and the projections and what shows there and so on, so I guess there is not really much I can add. There are two volumes of study here, and it is pointless re-presenting all that material to you.

You would have seen the bottom line that, sure, there are benefits, and the benefits can look small in many ways, but then it is pretty small liberalisation from AFTA-CER in terms of what it would do, combining New Zealand and Australia and the ASEANs in a free trade area. It gives significant benefits but they are small, and in many ways that is a very good selling point because the small benefits are also less threatening to a lot of people, which is why we do not see trade reform on our own patch often because the costs of adjustment can look very large.

CHAIRMAN—Okay. You might not have been here when I asked Greg Sheridan and MTIA the same thing. Your study paper is all about AFTA-CER. In relation to the broader benefits of APEC, does one complement the other or do they tend—

Dr Stoeckel—I tend to think so when you look at these things. When you say, ‘There are benefits,’ people then say, ‘Well, you can rattle off some,’ and you say, ‘Well, how big are these?’ Trying to quantify them is, I think, quite difficult. But, yes, I think there are definite benefits. There are definite benefits as you foster trade links. You get understandings between cultures and business groups and so on, and you get greater

networks between individuals. All this is very useful. It fosters good harmonious relations between countries and trade creates mutual dependence. It also, in my view, creates stability and so forth. So I think it is a good move on those angles and those other sorts of indirect areas as well.

CHAIRMAN—What about the latest currency problems? That is putting it mildly, I suspect.

Dr Stoeckel—Yes.

CHAIRMAN—In terms of intra-AFTA and external to AFTA, what about the attitudes of countries like Australia to AFTA and to ASEAN in general?

Dr Stoeckel—There are several things there. Firstly, what will that currency turmoil do to those economies? Secondly, what is our attitude to that? On the currency turmoil, again, basically those economies have got to get on and reform harder and faster. That is the solution, as we saw in Mexico with a similar collapse. Mexico made massive reforms, but it still takes five years. Five years later Mexico's GDP is where it was five years ago and the real exchange rate in Mexico is where it was five years ago.

The work we are doing shows that when there is a loss of confidence, if it is not managed well, it can take you damn near 20 years to get back to where you were. That has got a lot of implications. But the solution when you have these economic crises is to reform harder, better, faster and broader—do more things. Basically, you have got to win back the confidence of the international investor.

CHAIRMAN—But it is not just about economic signals, is it? It is about perceptions and correcting, in some cases, those perceptions.

Dr Stoeckel—Yes, that is what a lot of confidence is, but it is also how you correct them. There is a lack of confidence in those economies being able to correct those perceptions. Certainly we have not seen any evidence of that to date. In fact, it looks like Thailand is even resorting back to protectionism. The politics drive them into putting up the barriers, putting up the shutters, trying to stop imports, promote exports and so on.

Stopping imports is the one thing that ultimately stops exports. They have lost that point. So the successful exporting nations are the successful importing nations. That fundamental message is lost on the community. People see imports as a problem and exports as good. They never see the fact that the whole purpose of exporting is to be able to buy those imports and it is imports that add to welfare. We all fly in jumbo jets. Australia cannot make jumbo jets, so we have to export some stuff so we can buy jumbo jets to fly around in. We would be worse off if we stopped that.

Dr SOUTHCOTT—So you are arguing that linking AFTA with CER would

actually speed up liberalisation faster than the APEC goals?

Dr Stoeckel—When quite a number of the APEC economies are already in free trade and with zero tariffs it then becomes a lot easier to extend it. It starts to point to the notion of, ‘Korea or Japan; why not you too?’ The cream tends to go to the surface and people tend to copy the good things that are happening. Mostly the developing countries in the world do not want to stay poor and they know what the recipe is. They know that liberal trade, more liberal investment, sound macro-economic management and so forth are fundamental recipes for getting good growth. I think increasingly that will come to be recognised around the region if ASEAN gets on and starts to liberalise.

Dr SOUTHCOTT—Alan Oxley, when speaking to our committee, mentioned the fact that when Indonesia, Malaysia and Singapore had been reducing their tariffs they had actually been offering them on a most favoured nation basis rather than as something within AFTA.

Dr Stoeckel—Correct.

Dr SOUTHCOTT—So is it possible that AFTA is evolving into something different from what we thought rather than being a bloc in which there will be free trade by 2003 or whatever?

Dr Stoeckel—No. Normally you look at trade blocs and you think this will start to work in the world system. You get all these different rules of origin, and cosy deals and best interests start to creep in. Obviously we would be better off with a multilateral system. I guess I was surprised when I went back and looked at ASEAN and what they have been doing—they have had their fifth summit meeting—every time, it seemed to me, they seemed to go broader, deeper, faster and better in their liberalisation. They extended it to non-tariff barriers and started to include other things such as dispute settlement procedures and so on. So all the right things are happening and, as you correctly say, they seem to be offering those reductions on an MFN basis anyway.

Thailand is an interesting case because, when I was there a month ago, they were quite clearly saying that they saw the ASEAN notion as, ‘Oh, yes, let’s have a little free trade here with so-and-so and reduce tariff barriers to ASEAN members as a trade bloc.’ They were buying off the politics of it all by saying, ‘Look what we get in return for us giving up something here.’ This old reciprocity thing is very strong. Even though it does not make any economic sense; it makes an awful lot of political sense.

Having got free trade or a lighter barrier or whatever, then they would probably say, ‘Well, why don’t we have that for everybody?’ Then they would offer it on an MFN basis. So, in that sort of sense, what has happened is that they have the runs on the board. What they have been doing really has been consistent with promoting more global free trade. That is what gives me greater confidence that CER joining up—they are getting the

barriers off—is a good thing.

CHAIRMAN—I will just come back to the currency crisis again and the Australian domestic ramifications. This morning MTIA, for example, made the point that, because they have already had strong anecdotal evidence of the impact in some of those countries as to the need for Australian companies to be seen as more competitive, perhaps the government should be looking at some DIFF replacement type policies—not DIFF but policies with the same sort of impact that might make sure that Australian companies are maintaining their competitiveness, particularly with imports. There are a lot of imports going into, say, Thailand, where they might put things together but, as a result of only putting them together, the imports are far more expensive—maybe 30 or 40 per cent. Do you think the federal government should be looking at some sort of policy initiatives or policy variations in terms of the crisis?

Dr Stoeckel—No, I do not. Basically, we cannot become rich and prosperous by subsidising industries. Someone has to pay. Whenever you measure it properly—

CHAIRMAN—So you do not agree with MTIA?

Dr Stoeckel—No. I would not agree with subsidies for industry. I could appreciate MTIA arguing that a little bit of subsidy here and a little bit of export assistance there might be a good thing but, quite frankly, we cannot become rich and prosperous as a nation by doing that sort of thing. I am yet to see any analysis where that does stack up. I could send over some papers on the DIFF scheme. We have analysed that at quite long length and the benefits are not there.

CHAIRMAN—If you could take that on notice, we would be interested in receiving something on that. Clearly, even though there are big question marks as to what the overall impact of this latest crisis is going to be, at this point in time it is pretty obvious to the committee that it is going to form a fairly important and very contemporary part of what we might be saying to the parliament.

Dr Stoeckel—Sure. The trouble is if those economies in ASEAN are in economic crisis and do not manage it well and they get stuck in a rut. Let us face it: Japan is now stuck in a rut. Since its economic crisis, it has gone nowhere in seven years. It could well hit recession, in my view, next year. Why would we, as a country, be trying to promote exports into an area which looks like it may, potentially, be a loser? We do not know, so the best thing we can do may be to move on to India or there may be good prospects in South Africa, South America or who knows where.

CHAIRMAN—By saying that, you are not questioning what Australia did in terms of the baht currency?

Dr Stoeckel—No. When there is a crisis of confidence that can be very useful.

You have to get a rescue package together. That was very successful in the case of Mexico. However, the creditors are at fault as well—they have lent too much money in Thailand, put it in the wrong areas without enough discipline and so on—and they ought to take some of that hit as well. The problem you always have in these issues is do you let one or two go to the wall?

Ultimately you do sometimes have to let a bank or two go to the wall so there is a bit of discipline on the banks. They think, ‘Thank heavens. We do not want to lose our shirt here. We had better manage ourselves properly and prudently and everything else.’ If the government is going to come in and bail them out every time there is a bit of a crisis and a bit of a loss, then where is the discipline on the banks to do a good job? There never is. You are just socialising your losses—passing them on to taxpayers.

Mr LEO McLEAY—The question that could arise with the current difficulties in the ASEAN economies is whether there is potential for a mechanism to clean them up in the medium term so that when real growth starts to occur again you will have a firmer basis on which to work.

Dr Stoeckel—Real growth will start again when they have a firmer basis. That is what will bring the investors, confidence and so on back into the region. This is the issue: how do you get good governance? It is the same issue here in Australia: how do we get good government, government that does the right thing, moves policy forward and educates people in terms of what is best for the nation and so on? They are facing that same issue.

We have seen this change in the international institutions over time. Initially they used to go in—the World Bank would go in—and lend some irrigation pumps and produce a bit more irrigation and some crops. That did not work, so they lent the money to the countries to invest wherever they liked, and they found that the money just ended up in chateaus in Paris or whatever. Then they said, ‘Well, look, we will lend you the money on these conditions,’ and they had all these structural adjustment loans, ‘You can do this, that and the other, keep control of government spending, and so on.’

The point is, if those things are good to do anyway, why do those countries not see it for themselves? The thing is to try to do the training. One of the most important things we can do is to educate and train so that these groups can see for themselves the right policy prescription to get out of their mess. Dictating from outside will not help. If they see it for themselves, there is good chance it will be more enduring.

Mr LEO McLEAY—How do you stop corruption in these sorts of societies? That is the basis of a lot of this.

Dr Stoeckel—A lot of it is. There is corruption and so on. I suppose it is still a matter of trying to educate those economies of that. I know that the IMF writes articles

and papers on corruption and trying to identify what it is costing, where it arises and so on. Incidentally, a lot of the corruption in some of these countries comes from these border measures. As soon as you put a tariff on, you create a wedge between the price of what is imported and the local price and then, of course, you have got the temptation to bribe customs officials and so on.

A lot of the time you get rid of barriers and you get rid of corruption. It is no different from Australia and the drug laws here. We have a law which puts a ban on drugs, creates a big wedge between the market price and the cost of growing these things, and then it is rife for people to get into that game and other illegal practices.

Dr SOUTHCOTT—If the APEC trade liberalisation does proceed under the Bogor declaration, what sorts of benefits do you estimate there will be from linking AFTA to CER? Would it just be a symbolic linkage? Is there any potential downside for Australia with proceeding with this linkage from our other regions that we trade with?

Dr Stoeckel—It is hard to see any downside. Where AFTA is going generally is what we call an open trade bloc. It is maturing into quite a healthy thing consistent with the international multilateral system, which is all healthy and so on. I can certainly see that trend. There certainly is another question, though. APEC is the big game. These ASEAN economies are four per cent of APEC's GDP. It is small. The reason we are coming up with small numbers is that we are looking at something like one-sixth of Australia's exports to an area. We are taking off a barrier of about 20 per cent—that is, one-fifth. Exports to our GDP are 20 per cent—that is, about a fifth. So you have a sixth times a fifth times a fifth. You are starting to get a pretty small number. So, yes, the big game is Japan and Korea and, to a lesser extent, America, but China is also in there. North Asia is where the game is.

If we knew with 0.99 probability that APEC was all happening and so on, then, yes, maybe this is not worth the candle. The trouble is we are not very confident about APEC happening. We are far more uncertain about that. Whatever initiatives we do with AFTA, it is really complementary to those APEC initiatives. If we really do hold discussions with AFTA on, say, rice imports, that is a sensitive issue, and those same sensitivities are there for Korea as they are in Thailand or whatever. Developing arguments for those and pointing the way for Korea to follow can be very important.

Dr SOUTHCOTT—Do you think that has been one of the reasons we have seen a rise in regional trade agreements over the last decade—that they are seen as perhaps less unwieldy than the World Trade Organisation or big organisations like APEC and that smaller groups can facilitate trade liberalisation in a WTO consistent way?

Dr Stoeckel—Sure. I think the WTO is pretty unwieldy and we are still struggling to try to get another round off the ground in 1999. There will be talks on agriculture, but they are not linked with anything else at this stage. So where is the trade-off going to be?

That is going to be a pretty hard call.

CHAIRMAN—There being no further questions, thank you very much, Dr Stoeckel. You were a great help.

Dr Stoeckel—Thank you for having me along. I will send you over that material.

CHAIRMAN—Yes, if you would. If you could take that and we could have those as you can make available.

Resolved (on motion by Mr Leo McLeay):

That this subcommittee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.18 p.m.