

AUSTRALIA AND NORTHEAST ASIA

Address by the Minister for Foreign Affairs and Trade, Senator Gareth Evans, to the Committee for the Economic Development of Australia (CEDA), Melbourne, 22 March 1990.

In a period of rapid and immense international change, such as that through which we are now passing, diplomacy needs to keep a sharp eye out for opportunity. Opportunities occasionally beckon but more often than not they must be identified before they can be seized. In the Northeast Asian context, this means understanding the economic dynamics of the region and how Australia can further plug into the pattern of growth and development there. It also means understanding the strategic environment of Northeast Asia because, as the post-war history of the region demonstrates, strategic stability has been an important ingredient of economic success.

The 1980s will probably be recorded as something of a turning point in the way Australia perceived Northeast Asia, by which I mean the region encompassing Japan, the two Koreas, China, and the economies of Taiwan and Hong Kong. More so than any previous decade, the '80s were characterised by a sense of enthusiasm and opportunity about the future of Australia's relations with Northeast Asia, in trading terms as well as in terms of building up relations of greater depth and texture. The most eloquent expression of this view has been, and remains, the recently completed Garnaut Report on Australia and the Northeast Asian Ascendancy with its wide-ranging checklist of the opportunities which Northeast Asia holds for Australia.

The development of a broadly based relationship with Northeast Asia is, of course, very much an on-going process. In economic terms, and to a lesser degree in political and cultural terms, we have already made a great deal of progress which we hope will be further consolidated in the 1990s. The existing linkages between Australia and Northeast Asia are extensive. Japan is by far our largest market anywhere. The ROK is set to become our third largest export destination. We export more to Hong Kong than we do to the United Kingdom. Taiwan and China rank fifth and ninth respectively in terms of their importance as export markets. In all, Northeast Asia takes fully 43 per cent of our exports, provides a little under a third of our imports, is a major source of foreign investment and tourism, and contains five of our top ten export markets.

STRENGTHENING BILATERAL RELATIONS IN NORTHEAST ASIA

The concept of a distinct Northeast Asian region may be gaining increasing currency, but

for the foreseeable future the main avenue for advancing Australia's interests in this heterogeneous area will continue to be our bilateral connections in the region. Asia Pacific Economic Cooperation (which I will come back to later) and the increasing economic interdependence of the Northeast Asian economies will broaden the scope for regional approaches, but not to the extent of displacing the primary role of bilateral diplomacy.

In economic terms, and increasingly in other areas as well, the most important bilateral relationship for Australia in Northeast Asia is with Japan. Japan is the most significant regional economic power. It is Australia's most important trading partner by virtue of the volume of two-way trade, investment and tourism, and there is every reason to believe that this economic importance will continue well into the next century.

In the post-war period the Australia-Japan relationship has grown from an essentially commercial one into a "constructive partnership", to use the description proposed by the Japanese side at the last Australia-Japan Ministerial Committee meeting. Commerce is still the core of the relationship, and bilateral trade issues - most notably the opening up of the Japanese economy in the agricultural and other sectors - are a prominent item on the bilateral agenda. But today that agenda also covers an enormous range of subjects beyond the bilateral trading relationship. We talk about international issues as diverse as global warming, international macro-economic coordination, the Uruguay Round of multilateral trade negotiations, development assistance cooperation in the South Pacific, North Pacific security strategy, the economic and political reconstruction of Indo-China, and the biggest issue on the regional economic agenda - Asia Pacific Economic Cooperation. And on top of all these government to government contacts, there are the innumerable human contacts generated by the several hundred thousand Japanese tourists who have visited Australia.

In talking about Australia's relations with Japan it is impossible to pass over, as much as I would like to be able to, the unhappy events of the last week in relation to the Multifunction Polis proposal. The peremptory abandonment by Mr Peacock of a concept which, only a week before, his Party had described as one that was "unique for Australia and deserves extensive consideration", and which his Industry spokesman, Mr Howard, had said should not be "buried in a sea of hostility" before it is fully studied, is extremely unfortunate for this country for three main reasons.

First, it sends all the wrong signals about Australia's willingness to embrace a high technology, innovative, adventurous economic future: to become, as the Prime Minister has put it, the "clever country" rather than just the "lucky country".

Secondly, it sends a message - about the irrelevance and unacceptability of a highly creative Japanese idea - to our major trading partner that can only be described as gratuitously offensive, and certainly quite counter-productive to the development of positive government and commercial perceptions of us.

Thirdly, it sends a very poor message about the willingness of our alternative political leadership to pander to crude populist sentiment in the community, rather than accepting the responsibility of leading it in more rational directions.

The MFP may well yet prove to be, at the end of the day, an idea that may not fly - that may not be able to be pinned down with sufficient precision to make it attractive to Australian and international investors. But as the financial commitment of 156 leading companies in Australia and Japan amply testifies, it is nonetheless an idea which is certainly worth pursuing a lot further yet, certainly to the completion of the feasibility study now under way. Good government and good political leadership - the kind that improves rather than diminishes Australia's standing in the region and the world - is not about ill-informed and ill-considered dismissal of ideas before they are ripe, but the rational assessment of the balance of Australian interests when all the evidence, and all the arguments, are in.

The position of China is, of course, central to any discussion of Australia's relations with Northeast Asia. The events of June 1989 have had a significant impact on the bilateral relationship. As a government, we simply could not pretend that nothing had happened and, after a decent interval, go back to business as usual.

Last July, following the Beijing massacre, the Government announced a series of measures which substantially downgraded Australia's relations with China. These measures included the suspension of ministerial visits, restrictions on the consideration of new project aid and concessional finance proposals, and the indefinite suspension of high level defence visits and future defence sales. In January of this year, the Government reviewed these measures and decided to keep them in place, with the exception that instead of a total suspension of ministerial visits, these visits would be considered on a case by case basis. Our decision to continue with the various restrictions reflected several factors, not least being our global human rights concerns and interests. Any further adjustments to Australian policy over time will be made, as appropriate, by the Foreign Minister in consultation with the Prime Minister, taking into account further developments in China, evident threats to Australian interests, and changes in the attitude of like-minded countries.

At the same time, the Government remains committed to a long-term cooperative relationship with China where Australia has enduring strategic and economic interests. It is manifestly not in the interest of Australia, or indeed of the region or the broader international community, to have an isolated and inward-looking China. Regional stability will be influenced by China's key role in issues such as Cambodia, and by the results of its economic modernisation program. The extent of China's openness to outside economic forces will have crucial influence on the future of Asia Pacific regional economic growth and integration, with obvious implications for Australia. China is also an important player

on issues of global importance such as disarmament and the environment. The Government continues to hope that China's leaders will return to the path of reform and modernisation, and permit the full resumption of the strong bilateral relationship between our two countries that existed prior to the tragedy of June 1989.

Australia's relations with Hong Kong and Taiwan are necessarily more restricted and of a different character, given the absence of a government-to-government framework. Nevertheless both economies are major trading partners of ours and our commercial relationship with each is diverse, and at least in the case of Taiwan becoming more so. As Taiwan's economic strength continues to grow, it is likely to become increasingly assertive, and perhaps less accommodating in the pursuit of its interests. But for the moment our economic relationship continues to develop. Taiwan investors are beginning to show interest in investing in Australia. The number of business visitors is growing steadily. Negotiations on a direct air service are continuing through commercial channels. An Australian Education Centre will shortly be established in Taiwan, and Taiwan is already a major source of business migrants.

The future of Hong Kong is more uncertain following the developments in China last June. Business confidence has suffered, growth in the last half of 1989 slowed, and emigration figures are rising. Some of the uncertainty over the legal and constitutional arrangements which will apply after 1997 when Britain leaves has been resolved with the publication by the Chinese legislature of the final draft of the Basic Law. But confidence remains a problem.

Australia is committed to the long-term prosperity and stability of Hong Kong. We have an important economic stake there, through trade, investment and also through Hong Kong's unique position as a stepping stone to the China market. In the period ahead, we will be looking carefully at what more we can do to help ensure a successful transition.

Our relations with the ROK, like those with Japan, are also reaching out well beyond the trade area. Bilateral trade - including access issues - remains a very important part of the bilateral dialogue, but that dialogue is also gaining more depth and breadth. At the Australia-Korea Forum held in Canberra last November, for instance, the agenda ranged across political and strategic issues, industrial relations, education, science and technology, the environment and culture. And even the trade dialogue is itself becoming more sophisticated and wide ranging, focussing strongly on international and regional issues - with all the complex politics and diplomacy that goes with them. This year will also see the establishment of direct air links which will further broaden the ties between Australia and the ROK.

Our relations with North Korea (DPRK) have remained interrupted since 1975 when the DPRK abruptly withdrew its embassy from Canberra and expelled our embassy in

Pyongyang. We have indicated to North Korea that we are prepared to continue the dialogue initiated by it in 1988 on bilateral and other issues. We do not, however, think it appropriate to resume full diplomatic relations at this stage, and our attitude to improved relations will depend on developments in ROK/DPRK relations, and on our level of confidence that there is in fact a basis for a constructive relationship.

So with the exception of North Korea our bilateral relations in Northeast Asia are expanding and becoming more diverse. But, particularly in the area of our public diplomacy we need to do a lot more. I am referring here to information policy, cultural diplomacy and all the other formalised efforts we make to persuade and influence foreign decision-makers, and publics, to develop positive responses to Australia and to Australian policy initiatives. Last week I announced that, in order to develop a more coordinated and harder-edged approach to the business of public diplomacy, we would upon our return to office establish a new Council for Australia Abroad, along the lines recommended in the Garnaut Report, but with a brief extending beyond Northeast Asia.

The peoples of Northeast Asia, as distinct from their governments, know very little about what kind of society we are. The polls summarised in the Garnaut Report on community perceptions of Australia in North East Asia reveal huge gaps in popular perceptions of Australia. The problem here is not that we have an unfavourable image but that, to the extent that we impinge at all on the consciousness of ordinary North East Asians, it is in terms of a collage of simple images: Australia as a land of open spaces, exotic flora and fauna, an exporter of commodities - and a good place in which to relax! We are not seen as a dynamic economy, nor are we perceived as a country with intellectual and cultural achievements.

At one level there is little we can do about this, in that there will always be an autonomous development of community attitudes which will take place regardless of what we do in our public diplomacy. This is the reality of global communications. Nor is this sort of one dimensional portrayal of Australia at the popular level necessarily harmful to our interests in all cases. In terms of tourism, for example, it is probably a plus. At the same time, there can be no question that a more accurate and rounded image of Australia than currently exists would greatly help us to build the sort of multidimensional relations with the communities of Northeast Asia that we seek.

ECONOMIC GROWTH AND INTERDEPENDENCE IN NORTHEAST ASIA

One can argue about the extent to which Northeast Asia can be said to constitute a single coherent region, but there is no doubt that it, and the broader Asia Pacific region of which it is an important part, are becoming increasingly interdependent. The economies of Northeast Asia are moving closer together, in part in response to Japan's emerging role as the engine of regional economic growth, and the related process of "shifting

complementarities" within the region. The result is a pattern of regional trade and investment, technology flows, and interlinkages in sectors such as tourism which create several neat complementarities with Australia.

The economic appeal of Northeast Asia for Australia is largely a reflection of the spectacular growth rates of most of the northeast Asian economies. As the Garnaut Report notes, the pace of economic growth in Northeast Asia over the last several decades is without historical precedent. In the period since the end of the Second World War, Japan has become the second largest global economy, the largest international creditor and the world leader in fields as diverse as automobiles, consumer electronics, industrial robotics, semiconductors and banking. South Korea and Taiwan have grown from underdeveloped economies heavily dependent on United States aid, to upper middle income economies and major world traders. China, over the same period, emerged from chaos and civil war to the point where it is now the world's major exporter of labour intensive goods.

There are no doubt many explanations for these remarkable transformations. It has been argued by some that Confucian values and the relationship between government and business in some of the economies have played a part. But the main explanation can be couched in more orthodox economic terms. The successful economies of Northeast Asia have saved and invested a high proportion of output. Their rapid growth has been associated with effective economic management, and particularly with outward looking policies which have drawn strength from a comparative advantage in supplying manufactured products to the world market. They have proved willing to absorb and adapt technology from abroad, and - more importantly - to undertake structural adjustments. And they have benefited from labour forces that are diligent, skilled and productive in relation to labour costs.

Rapid growth in Northeast Asia has also depended critically on the relatively open post-war international economic order. This order has been weakened over the years by significant difficulties and restrictions in areas such as agriculture and textiles, and - more recently - by a proliferation of voluntary export restraints and other protective measures, often directed at the Northeast Asian economies. Nevertheless, a relatively liberal trading system has been an essential foundation for the strategies of export oriented industrialisation which economies in Northeast Asia have pursued.

China is, as in many other respects, something of a special case. Here, the momentum of development has, on more than one occasion, been interrupted by significant policy reversals and instability. Rapid growth in the period since the end of the Cultural Revolution has been very much associated with market oriented reform, and an increasingly outward orientation for its centrally planned economy. Continuing growth over the next decade will equally depend on a continuing commitment to reform and to the political changes which are required to make economic reform effective.

An enormously important tool for the next Hawke Government's consideration of how better to deal with the dynamic economies of Northeast Asia remains Ross Garnaut's report of October last year to the Prime Minister and me, Australia and the Northeast Asian Ascendancy. An inter-departmental committee of senior officials chaired by the department of Prime Minister and Cabinet is expected to report to the Structural Adjustment Committee of the Hawke Cabinet early in our fourth term with a set of detailed responses for our consideration. Some recommendations, such as that concerning the elimination of tariffs, have already received a degree of public scrutiny. Our strategy in this area must necessarily be closely linked to progress in the Uruguay Round: our preparedness to liberalise our tariff regime may in that context be an important bargaining chip, in concert with like-minded countries, against the more recalcitrantly protectionist members of the world trading community. Other areas, however, such as the creation of a special regional analytical unit within my department, can be implemented unilaterally and will be high on the fourth term SAC agenda.

NORTHEAST ASIA AND APEC

What the economic performance and evolving economic structure of Northeast Asia add up to is a case for a much more concerted effort to take advantage of the complementarities between the Australian economy and the present and future economic needs of Northeast Asia. And in this process Asia Pacific Economic Cooperation (APEC) has an important role to play.

This is not the occasion to rehearse the objectives and evolution of the Australian initiative on APEC, but I do want to comment briefly on the question of Northeast Asia's involvement in the APEC process. Of the Northeast Asian economies only Japan and the ROK participated in the historic Ministerial level meeting which I chaired in Canberra last November, and which launched the APEC process. There was no consensus, prior to that meeting, on the participation of China and the economies of Hong Kong and Taiwan. However, the Canberra meeting did agree that China, Taiwan and Hong Kong were all significant economies, important to the future prosperity of the region, and that it would be desirable to consider further their involvement in the APEC process.

Australia continues to support the early involvement of China and the economies of Hong Kong and Taiwan, and I am hopeful that further progress can be made before and at the next ministerial level meeting of APEC due to be held in Singapore this July. Certainly, it seems hard to accept that APEC can realise its full potential without them - and a widespread effort by a number of APEC participants to resolve the sovereignty issues which are inhibiting their easy integration into the process is underway. But diplomatic formulae of this kind cannot be rushed and there is much else to do in ensuring that APEC lives up to the potential made so evident at its launch in Canberra last year.

In this regard, other aspects of the APEC process are well on track. The very constructive senior officials meeting which was held in Singapore last week made good progress on a work program, and identified six specific projects on which substantive work will be carried forward. These include a review of trade and investment data, the expansion of investment and technology transfers, human resources development, regional energy cooperation, and the conservation of marine resources.

THE STRATEGIC ENVIRONMENT

The economic dynamism of Northeast Asia and its growing interdependence coincides with an increasingly fluid regional strategic landscape, about which I would like to have a brief concluding word. Australia is not geographically part of Northeast Asia, but our economic interdependence with the region means that we have an important stake in its strategic stability. Of all the sub-regions of the Asia Pacific, the North Pacific is probably the most complex and, at least potentially, the most unstable.

Its complexity flows from the fact that the interests of four major powers - the United States, the Soviet Union, China and Japan - intersect there. Additional elements of uncertainty include the current situation in China, the position of Hong Kong and Taiwan, territorial disputes in the South China Sea, possible changes in the US-Japan security relationship, and the direction in which Japan-Soviet relations might develop. This potential instability is highlighted by the situation on the Korean peninsula, which for forty years has been the eastern fulcrum of global East-West conflict. Unfortunately, the gap between the two Koreas remains wide. A further and very disturbing element in the DPRK's approach is the suggestion that it may be keeping open the option of acquiring nuclear weapons, a proliferation prospect against which Australia among others has long campaigned.

The continuing dialogue between the superpowers, embracing as it does the strategic situation in the North Pacific and elsewhere in Asia, combined with a widespread perception that the Soviet threat has diminished, will inevitably have a bearing on how governments in Northeast Asia assess their security needs. A key determinant in this changing scene may well be the extent to which changes in the nature of force deployment and structure of the great powers lead to the establishment of some new confidence building framework.

Indeed, the 1990s present an ideal opportunity to make confidence building measures (CBMs) - arrangements designed to produce an assurance of mind and a belief in the trustworthiness of states and actions they undertake - an established feature of regional security arrangements in areas of tension such as the North Pacific. Such arrangements might include an open and frank dialogue on security perceptions; transparency in the form of the release of reliable and authoritative information on force levels and force

characteristics and the strategy which underpins them; prior notification of naval exercises; the participation of observers from a range of countries in such exercises; and naval exchange visits between erstwhile adversaries.

It is natural enough that regional expectations should rise, given the rapid progress in the arms control negotiations between the superpowers and the success of confidence building measures in Europe. It should not, however, be assumed that changes can be introduced at any comparable rate in this Northeast Asian region of more complex security relationships, which not only lacks Europe's institutional framework but has no real tradition of multilateral dialogue on security issues. Europe is now showing the results of fifteen years of effort since the Helsinki process began. The time may be approaching for a similar process to commence in the Asian region.

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Let me conclude with these observations about the future of Australia's relations with Northeast Asia. If we are to take full advantage of the complementarities between the Australian economy and the economies of Northeast Asia we obviously need the right domestic economic policies at both the macro and micro-economic levels, and we need a private sector willing to nurture an export culture.

We also need an external policy which complements our domestic objectives. Putting in place effective trade policies which are conducive to Australian exports is an important part of getting the external component right. But it also important for Australia to have constructive and well thought out policies on issues - such as the strategic role of the United States in the region, and means of reducing regional tensions - which are central to the security of the region. And we need to pursue an active program of public diplomacy which helps to build people-to-people links with the communities of Northeast Asia, and which projects Australia as a constructive and outward looking partner with something to offer the region.

The long heralded Pacific century is already upon us. If that century is to realise its promise, we will need to stick with our current policies of economic reform at home, and a constructive, multidimensional diplomacy abroad.

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