

## AUSTRALIA'S ECONOMIC ENGAGEMENT WITH ASIA

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the Australian Institute of Company Directors, 27 March 1992, Sydney.

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In his One Nation statement on 26 February, the Prime Minister indicated that the potential increase in our exports by 1994 was \$20 billion, and of this the potential increase to Asia was \$13 billion. Nothing could highlight more clearly how important Asia has become to our future.

The great turn-around in Australia's contemporary history has been our response to developments in Asia. This dynamic, changing region, from which we sought to protect ourselves in the past, is now the region that offers Australia the most. Economically, there is now a widespread recognition in Australia that Asia is the region where we can best guarantee our prosperity. The same historic shift is clear in terms of security. The need to live in Asia strategically has led us to realise that we must seek security with Asia rather than from it. And we have begun to recognise that in quality of life terms we can benefit enormously from closer people-to-people contact with our own region: we have seen rapidly develop a whole infrastructure of linkages between Australians and Asians, through migration, education, cultural exchanges and travel.

With almost 60 per cent of our exports going to North-East and South-East Asia alone - and total trade with these regions running at nearly \$50 billion annually - I want to concentrate today on the economic aspects of our engagement with Asia. I want to show how the Government's macro- and micro-economic policy settings, our trade policy and our export promotion measures provide a coherent and comprehensive strategy for our economic engagement with Asia. The Government's approach is aimed at equipping Australia to take advantage of the economic opportunities that exist to our north, and in particular at overcoming any obstacles to the fulfilment of our commercial ambitions.

At the outset, however, it is important that we understand exactly what is happening to our north. As we formulate our own strategy, we need to take into account of the three principal features of economic growth in Asia: its dynamism; its dependence on an open international trading order; and its internally interdependent character.

The dynamism is clear from the figures. In less than three decades production in North East Asia alone has increased from about one quarter of the production of North America to one quarter of that of the world. The economies of the Western Pacific rim were, by the late 1980s, recording an annual GDP growth rate of about 7 per cent and an export growth

of 14.5 per cent. The Asia Pacific region as a whole now accounts for about half of global production and about forty per cent of global trade.

This economic dynamism has depended heavily on the ability of the Asia Pacific economies to take advantage of the relatively open post-war international economic order. The result has been a region whose trading instincts are outward-looking, aggressively so, and which is probably the most committed of all regions to trade liberalisation - even though Japan and Korea continue to throw up obstacles to the liberalisation of their heavily protected agricultural sectors.

The economies of the region are also increasingly linked. A process of shifting complementarities is working its way through the region to produce a new economic map crisscrossed with the ties of interdependence. Economic development in one part of the region has opened the way to development for other parts. The spread of manufacturing industries, for instance, from Japan to Korea and Taiwan and now to South-East Asia and beyond has been fuelled by intra-regional flows of technology and finance. And in some cases we are seeing the emergence of zones of economic growth that effectively ignore political boundaries. The southern coastal provinces of China, Hong Kong and Taiwan form one such economic powerhouse; the growth triangle of Singapore, Batam in Indonesia and Johore in Malaysia another. (The Tumen Delta area linking China, Russia and the Koreas - with Japan across the water - may come in due course to be yet another.)

The Prime Minister in his One Nation package pointed out that for the first time in our history we now live near our major markets. But if we are to take advantage of the enormous and historic opportunities that economic growth in Asia offers us, we must adapt to the region. As the Asian economies are increasingly drawn into global patterns of trade and investment, we must ensure that the globalisation of the Australian economy keeps pace. As the economies of the wider Asia Pacific region become increasingly linked, we must assume an important role in those linkages. The dependence of the economies of the region on an efficient and liberal trading order argues strongly for a continuation of our own efforts of liberalisation, both domestically and in support of reform of the multilateral and regional trading systems. In short, we cannot stand aside from the process of structural change in Asia.

Governments can't do it all: the real engine for economic change and development has to be the private sector. But there are three crucial things the Australian Government must do if we are to fully realise the opportunities to our north. The first key to Australia's successful economic integration with the region is effective domestic economic management: creating the conditions for Australian business to be internationally competitive. The second key is effective trade policy: securing better market access through intergovernmental negotiation. The third key is an effective government contribution to export promotion: getting goods and services into the markets thus opened.

We need first of all to get right both the macro- and the micro-economic settings of the domestic economy. This is a central theme of the One Nation statement, as it has been, of course, throughout this Government's term. The key to the good economic management of the Australia of the 1990s is a sustained low rate of inflation, so that our businesses can plan with confidence, our exporters can sell overseas with confidence, and we can save and invest with confidence. As the economic dynamism of the North-East Asian region continues to demonstrate, Australia's global and regional competitiveness will depend on a higher rate of savings and investment. Now, for the first time in decades, the underlying rate of inflation in Australia, at just over three per cent, is lower than that of most of our trading partners.

The second crucial element of good macro-economic housekeeping is responsible fiscal management. The extra spending of \$ 2.3 billion announced in the One Nation package underlines this point. Precisely because this Government has consistently held back spending, running budget surpluses for four years, we can now afford a measure of extra spending - amounting to 0.5 per cent of GDP - to stimulate economic growth. The positive reaction of international markets and local business to the Prime Minister's statement confirms that we have correctly judged the degree of stimulation that is both sensible and affordable.

Good overall economic management must be complemented by micro-economic reform. In this area, the reduction of trade barriers is crucial for the integration of the Australian economy into the world economy. By next year we will have abolished all quotas, and by the end of 1996 the general rate of assistance to the Australian manufacturing sector (excepting only passenger motor vehicles and TCF, where some residual buffers will be retained) will be only 5 per cent. All this will give us one of the most open economies in the world.

In removing or dramatically reducing trade barriers the Government has not been driven by a fixation with the so-called "level playing field", in the sense of believing, come what may, we have to make our own unilateral contribution to its international achievement. We are totally aware that distortions and unfair trading practices exist in many overseas markets, and we are doing what we can about this through our active role in the Uruguay Round of multilateral trade negotiations, and through our regional and bilateral trade strategies: I will return to this in a moment.

But whatever the outcome of the Uruguay Round, the fact that the playing field of international trade is not an immaculately maintained global version of the Melbourne Cricket Ground does not mean that we should continue with protective domestic trading arrangements that have hindered our own economic development, and limited growth in our own standard of living, for much of this century. Protection has encouraged high cost structures and penalised our most efficient industries. It has also left us badly prepared to

take advantage of the enormous export opportunities resulting from Asian economic growth.

Instead of refilling for Australian business the poisoned cup of protection, the Government's approach has been to provide assistance that really gives our industries a chance to compete in world markets through low inflation, lower cost structures and a more efficient economic infrastructure. The creation of an economic infrastructure that will support efficient, export-oriented industries has involved the Government in a continuing program of far-reaching reforms in the labour market; the education and training system; the financial system; land, sea and air transportation; communications; and taxation.

The second element of our Asian policy framework is our trade policy strategy, which operate at the global, regional and bilateral levels.

At the global level, nobody can overstate the importance of a successful outcome to the Uruguay Round of multilateral trade negotiations now, I hope, at last in its final stages. A successful outcome is particularly important for the Asia Pacific region, which owes much of its rapid economic growth to the trade and investment opportunities provided by the relatively liberal trading system of the post-War world, or where the General Agreement on Tariffs and Trade (GATT) has been a vital element.

The outcome of the Uruguay Round is not going to satisfy every group in every country. But international trade is not, as some European farmers or American car-makers tend to see it, a zero-sum game where profit and loss are evenly balanced. The wider gains from fairer, more liberal global trade in goods and services will greatly exceed the losses that a few will have to bear though the dismantling of some cosy shelters.

Although we have all waxed and waned between despair and excitement over the last few weeks and months, I remain cautiously optimistic that there can be a political conclusion to the Round within the next few weeks. The European and American leaders I and John Kerin spoke with last week are clearly committed to a successful outcome. The recent meeting between President Bush and Chancellor Kohl has further focused attention of the major trading powers' political leadership on the issue: everyone knows that if the Round's political conclusion is pushed back to June or July or beyond, it will become almost impossible to extricate from the US Presidential elections, and any further progress would be delayed until well into 1993.

We can only hope that this all translates into a concerted push to resolve the dead-lock on agriculture, so clearing the way for a settlement in coming weeks. The biggest difficulty at this stage seems to be that the remaining issues are too technically complex to be easily able to be settled by political leaders, but too politically charged to be settled by officials.

If the Round is to succeed, political leaders - particularly those in Europe - are just going to have to grasp the nettle, and sooner rather than later.

At the regional level we must take advantage of, and build on, growing Asia Pacific economic links. The most effective way we can do this is through the Australian initiated Asia Pacific Economic Cooperation (APEC) process, which through its wide-ranging program of sectoral work projects is starting to produce practical results which will facilitate business activity through the whole of the region.

APEC, comprising the 15 major trading economies on each side of the Pacific, was never intended to be discriminatory trade bloc and it is difficult to envisage it ever becoming one - for reasons of both principle and, given the variability of its membership, practicality. Moreover, despite the fact that the 15 APEC economies on average conduct nearly two-thirds of their trade with each other, they still depend on global flows of trade and investment underpinned by a liberal global trading system. With its North American and West Pacific membership, APEC forms a bridge between two of the putative warring blocs (the third being Europe) beloved by the doomsday scenario writers, and we are working hard to keep it playing that bridging role.

The most important task ahead for APEC is to advance the process of regional trade liberalisation - breaking down barriers within the region, but in a GATT-consistent way, not discriminating against the rest of the world. There are sectors - steel is an example - where the overwhelming proportion of present trade is within the region itself, and where the profit from non-discriminatory liberalisation would accordingly flow in the first instance very much to the benefit of the region. Success in barrier reduction in one or two such sectors could build the confidence necessary to tackle a more ambitious program of regional trade liberalisation. This is an issue that Australia has been pushing hard in APEC, and that we will continue to push whatever the outcome of the Uruguay Round.

Trade policy also has, of course, a bilateral dimension, and one that we have been actively pursuing with a number of our regional neighbours, e.g. in negotiating access for beef and other agricultural commodities into Japan, Korea and Taiwan. Bilateral trade liberalisation agreements - even ones as comprehensive as CER, between Australia and New Zealand - are quite defensible in principle so long as they are trade-creating rather than trade-diverting, and we cannot be critical of agreement entered into by other countries that have that character. But there is a real risk that bilateral arrangements can turn rapidly into managed trade of a kind that discriminates against other, efficient suppliers.

We have publicly expressed concern in recent weeks that the kind of agreement on trade in motor vehicle parts reached during President Bush's visit to Japan - by which Japan undertook to increase its purchases from the United States from \$9 billion to \$19 billion by 1995 - could have a trade-diverting effect. Australia, which has a valuable and growing

trade with Japan in cars and car parts, has been told by Japan and the United States that the deal is not discriminatory. We shall see. We have raised the issue bilaterally with both countries and in the relevant GATT bodies to ensure that both Governments adhere to their claims. In Tokyo next month I shall be discussing it further with the Japanese Trade Minister.

The third big job for government is to assist in the actual promotion of trade. Australia's approach here has been, first, to focus our activities where the potential is greatest, and secondly, to do so in a coordinated way that makes the best use of the resources available to us.

The One Nation package announced some important new measures in this respect: an additional \$8 million for the established Export Access Program, which assists small and medium sized firms to export; an additional \$18 million for DIFF, which has been crucial in boosting our exports of capital goods and services to developing countries; and the trebling of the Export Performance Bond Facility - to, now, \$150 million - which has been an important element in enabling Australian business to win contracts for major overseas projects.

A further key initiative has been the Asia Pacific Fellowship Program, launched by Senator Button and Dr Blewett in September last year, providing financial assistance to companies to enable them to place managers or graduate employees in key Asian markets for six to twelve months - on the principle that key elements for business success in Asia include familiarity with local business practices and national culture, as well as, very importantly, language skills. Fifteen fellowships have recently been awarded, enabling participants to work and study in Indonesia, China, Malaysia, Japan and Taiwan, and \$10 million has been set aside to enable 50 further placements per year for the next three years.

The main institutional vehicle for government export promotion is of course AUSTRADE, now attached to the Department of Foreign Affairs and Trade. AUSTRADE, which has received more than its fair share of criticism over the years, is now well and truly focusing its efforts on Asia. A lot of work has already been done in rationalising AUSTRADE's representation in Europe, North America and peripheral markets and strengthening its representation in Asia. But that work can now be carried much further by the pledge in the One Nation package of \$15 million over three years to enable the expansion of AUSTRADE's international representation, especially in the Asia Pacific.

The additional funding in the One Nation package will enable AUSTRADE to expand its international network by eight new offices and in three additional countries.

In particular it will enable AUSTRADE to accelerate its efforts to locate smaller offices in

new, emerging market areas and in provincial areas of primary markets, permitting Australian exporters, particularly medium or smaller companies, to introduce products and services away from the expense and stress of major capital city markets.

An AUSTRADE office of this type is already being established in Fukuoka, in Kyushu, Japan's southern-most main island, which has a gross economy larger than any other country in Asia outside Japan, and the new funding will enable the opening of a further three new offices (in Nagoya, Sendai and Sapporo) over the next twelve months.

Outside Japan AUSTRADE will be opening new offices in Hanoi in Vietnam and in Surabaya in Indonesia, as well as Phnom Penh in Cambodia and Vientiane in Laos. In addition, AUSTRADE trade correspondents will be appointed in Guam and in Cebu, in the Philippines, and the Bombay office in India will be upgraded.

You will forgive me pointing out that this increased support for export promotion through AUSTRADE is in stark contrast to the major reductions in support - involving cuts of \$70 million over two years - being promised by the Opposition in its Fightback package.

The value of coordination of promotional effort should be familiar to anyone involved in overseas trade. Competition within the individual economies of North-East and South-East Asia can be fierce and cut-throat, but that competitive spirit co-exists with close coordination between government, industry and other groups. By contrast, Australia's trade and investment promotion activities have too often suffered from duplication and lack of coordination between AUSTRADE, state governments and industry associations.

The National Trade Strategy initiative - initiated by Neal Blewett when Trade Minister, and now being followed through by my colleague in this portfolio, John Kerin - will meet that need. It aims to strengthen networking between Australian Governments and the business community, and to ensure that the Commonwealth and the States are not duplicating each other's activities. Above all, the initiative aims to ensure that these activities are what the Australian business community wants and needs. So far, the Commonwealth, in consultation with the State Governments and industry associations, has produced a review of Australia's bilateral trade and investment strategies. A meeting late last year of Commonwealth and State Ministers drew on that review, and agreed on a number of issues to involve industry more closely with the activities and plans of governments.

The development and reinforcement of the National Trade Strategy - which is still under way - will give us a coherent, strategic framework for our national export effort, harnessing in the most effective way all available resources. It will mean that consultation between governments and industry on trade and investment activities need no longer be ad hoc, but systematic, thorough and effective.

One particular outcome of the Ministerial meeting on the National Trade Strategy was the decision that the Commonwealth set in train, in consultation with State Governments and industry, a major study on Australia's trade and investment relations with South-East Asia.

The South-East Asia study is an important opportunity for Government and business to plan sensibly for the rapid economic development of a region in which we enjoy real advantages. The significance for Australia is clear from what has happened in 1991, when ASEAN displaced the United States and the European Community to become our second largest export market after Japan. Over 12 per cent of our exports went to South East Asia in 1991.

But the figures showing solid expansion of our exports to ASEAN - by 155 per cent over the last five years, from 1987 to 1991 - should not disguise the fact that there are still some areas of concern. We have held rather than increased our share in markets that have growing very rapidly indeed. Our exports are, for the most part, concentrated in a narrow range of products. And we have not taken advantage, to the extent we could, of the opportunities to invest in the rapidly increasing manufacturing capability of the region: just as we have been striving to develop an export culture, we need a foreign investment culture.

Lack of awareness of the extent of change and the scale of opportunities is now available is largely to blame for those failings. Old notions of South-East Asia in Australia simply don't do justice to the region's potential. We have not planned sufficiently how to use the advantages we enjoy in South-East Asia such as proximity, familiarity (including of Australian products) and old-established personal links through education.

In short, there is a gap that the South-East Asia study - and the follow up action that it will generate - can fill. The study will need to have a strong commercial focus and produce action plans for individual markets in the region, not just involve governments lecturing industry in general terms. Industry will need to be involved closely in its preparation at every stage.

South-East Asia should be a test case of our national ability to meet the challenge of economic integration with Asia. We are now better prepared to meet such a challenge. Through our work on APEC, and in a number of other areas, we are recognised throughout the region as a serious and committed regional player. Our domestic economic reforms, although continuing, have produced already more competitive industries better able to compete regionally and globally.

I know that some business people think that the Government could do even more, by giving less emphasis to some issues, particularly human rights, in our regional political agenda. However, I see no need to make any apology for adopting the profile we have on

such issues. It is one aspect, and a legitimate one, of Australia's growing engagement with its region. The Australian community expects its human rights concerns to be manifested in our foreign policy. Our concern, after all, is with the application in our wider region not of Australian values, or Western values, but universal values of the kind recognised and enshrined the UN Charter and international instruments. Our concerns are, on the whole, understood and accepted by regional governments, even where they are not liked. In my judgement, they have not resulted in any appreciable damage to our commercial interests.

I have been talking about what the Australian Government is doing domestically, regionally and internationally to promote Australia's economic engagement with Asia. But we can't do it all. Its very much up to Australian business to invest the same effort in building economic links with Asia that the Government has. I have been impressed with the degree of understanding of and commitment to the region shown by those of our business people who are familiar with Asia. Some of them - including some who are here today - have become superb operators in the region. But too few have this level of involvement, or have yet even begun the process of engagement.

Our future depends on extending our economic engagement with Asia, and that depends ultimately on more and more Australian business people developing levels of commitment and understanding at the moment the province of very few. I urge you to foster these qualities in your staff, so that they will become familiar with Asia, and be able to operate with confidence and success in the Asian business environment. Your companies will prosper, and so will your country.

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