

OPEN REGIONALISM: THE KEY TO ASIA PACIFIC GROWTH

Opening Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the TIME International Asia-Pacific Conference on Trade and Economic Relations, Sydney, 1 February 1993

The Asia Pacific economies the subject of this Conference make up the biggest economic grouping in the world - accounting for fully 40 per cent of global trade and 50 per cent of global production. Moreover, they do increasingly amount to a genuine group, not just a disparate collection of economies linked only by their common Pacific Rim geography. The 15 major trading economies of the Western Pacific and North America are now joined by common membership of the Asia Pacific Economic Cooperation (APEC) process, and economic linkages between them are strong and growing: from 1970 to 1990 Asia Pacific intra-regional exports increased from 54 per cent to 65 per cent, and imports from 50 per cent to 65 per cent, higher in both cases than EC intra-regional trade, and growing more rapidly than the West European links.

Whether this cohesion can or should be further enhanced, if so how, and the implications of alternative approaches for both the economic health of the region and the globe as a whole, are questions very much at the heart of present international economic debate.

While the United States is and will remain for the foreseeable future the biggest single economy in not only the region but the world, most of the region's economic dynamism in recent years has been generated from the other side of the Pacific. Within a single generation - in a three-wave industrial revolution beginning with Japan, continuing with the four "Tiger" NIEs, and now embracing South East Asia and South China - East Asia has been transformed from a scatter of poor, often unstable developing economies to become the world's fastest growing and most successful economic region: among other things more than doubling (from 6.8 per cent to 15.6 per cent) its share of global trade in 20 years.

That achievement has been made possible by a combination of personal hard work and sacrifice, strongly growth oriented domestic economic strategies and, above all, by a willingness and capacity to lead that growth with exports. And this export-led growth has been, in turn, something made possible by the relatively liberal international trading regime which has existed for most of the post-World War II period.

There is ample reason for confidence that the Asia Pacific Region will continue to perform well in the 1990s and beyond. But just how well will depend significantly on

what sort of international trade regime we build over the next ten years. Today I would like to address - if only in bald outline in the time available - the sort of regime we should strive to achieve. My essential point is that both the Asia Pacific region and the rest of the world will be best served by a policy of open regionalism - a regime in which regional cooperation and integrative strategies are pursued, but in which commerce into and out of the region is conducted in as free and undistorted a manner as possible, and in which all the players in the region commit themselves to that end.

Since its establishment in 1989 in Canberra, APEC has emerged as the pre-eminent forum for economic debate and cooperation in the Asia Pacific region. From the outset, APEC had essentially three objectives. The first was to develop strategies for regional economic cooperation in data collection and evaluation, common problem solving and sectoral projects of one kind or another: in these areas a number of work projects have been under way for some time, and are expected to start bearing fruit shortly as the organisation moves beyond its early formative stage.

The second objective was to give political support to the Uruguay Round negotiations and ongoing global trade liberalisation. The best possible news for both the region and the world would be a strong and early conclusion to the Round, boosting as this would world trade by an estimated \$200 billion per year and giving a new injection of confidence into the world economy in the process.

A third objective, not quite so clearly defined at the outset but rapidly coming to the top of the APEC agenda, was to explore the options for regional trade facilitation and non-discriminatory regional trade liberalisation.

On the subject of trade facilitation, APEC has recently agreed to set in train exercises designed to accelerate harmonisation of customs procedures; develop a foreign investment regulation database; establish an electronic tariff database to improve information flows; and to systematically review administrative barriers to market access, including phytosanitary regulations, labelling and packaging requirements, technical standards, rules of origin, anti-dumping and environmental measures affecting trade. Former Secretary of State Lawrence Eagleburger suggested last year that APEC should also be working towards such measures as a region-wide investment agreement, intellectual property agreement, dispute settlement mechanism and open skies agreement in civil aviation. All these and other measures will be very much within the focus of the APEC Eminent Persons Group, recently set up to "think big thoughts" about the longer-term agenda for regional cooperation.

On regional trade liberalisation, APEC is taking the first tentative steps toward exploring the possibility of tariff reduction or removal in individual sectors: at this stage there is no thought of moving to anything so ambitious as an APEC-wide free trade agreement. The

prevailing view - and one which Australia very strongly endorses - is that any move towards regional trade liberalisation must be on a basis which is wholly consistent with the multilateral trading system. Regional liberalisation initiatives, designed to produce gains additional to whatever is achievable through global GATT procedures, would still deliver benefits for the region's members even if pursued on a non-discriminatory basis. The present thinking within APEC is, naturally enough, that regional trade liberalisation initiatives are best pursued in the first instance in those sectors - eg steel - where trade is presently heavily concentrated within the region, and where the benefits of liberalisation would flow as a result overwhelmingly in the first instance to APEC members, even if others could potentially share them.

The concept of open regionalism which is at the heart of APEC's emerging philosophy is equally applicable to regional arrangements wherever they exist in the world. If regional partners enter into free trade arrangements (whether or not accompanied by additional policy harmonising measures) the principles of open regionalism demand that those arrangements be trade creating and not trade diverting, and not only that no new barriers be erected against third parties but that firm commitments be made to the reduction of existing barriers to those third parties.

Not many existing free trade agreements meet this ideal, however formally consistent with GATT rules they may be acknowledged to be. The EC is GATT-consistent but remains an essentially preferential trade agreement: while it has not raised trade barriers to third countries explicitly, there is no commitment by its members to reduce them; and while overall tariffs have reduced somewhat (largely as a consequence of the Tokyo and Kennedy Rounds), non-tariff barriers, particularly in agriculture, have increased. The Common Agricultural Policy has certainly produced significant trade diversion - in Australia's case the costs to us are around \$1 billion annually - and it is difficult to believe that this loss has been outweighed by trade creation effects.

On the North American Free Trade Agreement (NAFTA), the jury is still out as to the overall trade creation or diversion implications of the very complex preferential arrangements involved. It is also a little early to make judgments about the likely impact in this respect of the ASEAN Free Trade Area (AFTA) now being constructed. Much depends in both cases as to whether a genuine commitment emerges to reduce trade barriers as against the rest of the world at the same time as internal barriers are being dismantled. The ANZCERTA free trade agreement between Australia and New Zealand has been perhaps the least criticised by third parties of any of its kind, essentially because the governments of both countries have been, for most of the life of the agreement, steadily engaged in unilaterally reducing such barriers - in Australia's case involving the general tariff rate being down to five per cent by 1996.

One of the liveliest trade policy issues that needs to be confronted in the region will arise if President Clinton pursues the "hub and spokes" model sketched in President Bush's pre-

election economic platform, in which the US - or perhaps all three NAFTA countries - would enter sequentially into a series of quite separate and distinct agreements with various countries in the region. Australia's initial instinct is to doubt that such an approach would be in the interests of most countries: the "hub" would tend to get the best arrangements, while negotiations between the "spokes" would tend to lack coverage, and be complex, non-homogeneous and costly in terms of negotiating time as well as maintenance costs.

It is even doubtful that such an arrangement would in the long run be in the United States' own interests. Given that the US is increasingly reliant on exports to fuel its economic growth, and in particular on demand from the Asia Pacific region, it has an interest in encouraging those economies to grow strongly - and the best way of getting that growth is to liberalise trade throughout the region as a whole.

One can conceive, as the proponents of President Bush's plan seem to, a GATT consistent regional agreement emerging incrementally over time, in which more and more countries embrace a common core of free trade commitments, and which is trade creating rather than trade diverting each step of the way. There is perhaps more likelihood of an APEC FTA emerging from this kind of process than from any envisageable single, all-in negotiation. But as Professor Richard Snape lucidly pointed out in a recent report to the Australian Government:

There is a crucial difference between a free trading area which is truly free trade, open to new members and with a common agreement covering all the members and, at the other extreme, an agreement which is limited in its product coverage, has different rules for different countries, is antagonistic to outsiders and admits new members, if at all, on discriminatory conditions. The first type of agreement complements and probably stimulates liberal, multilateral trade. The latter tends to undermine it.

Any reference to NAFTA raises the more general question of the United States' role in the region. Since World War Two, the United States has played a key role in enabling the Asia Pacific to enjoy its remarkable growth. US strategic power has underpinned political stability in the region and US support for an open, multilateral trading system has helped create the relatively liberal trading environment which has allowed the Asia Pacific economies to achieve the sort of export based growth to which I have already alluded.

Australia strongly believes that the United States should commit itself to continuing to play a key role in the region, among other things by maintaining its network of bilateral defence treaties, and building on those treaties by joining actively in the new forms of regional security dialogue which are emerging, and working through APEC to ensure regional trade liberalisation.

Such a commitment is - as Post War history has shown - in the interests of the region. The US presence is a stabilising influence as far as regional security is concerned and, when so much of the region's prosperity depends on continued access to US markets and technological advances, it is vital to keep the US constructively engaged in the region's economic dynamism. It is also manifestly in the interests of the United States. By virtue of geography, history and population the US is - and always will be - a Pacific power and will always have an interest in the region being stable and prosperous. It is clear that if the United States is to achieve a sustained economy recovery it will be through growth in its exports; it is equally clear that for now and the foreseeable future the best source of that growth will be the Asia Pacific.

Australia also welcomes Japan playing a more leading political role in the region. I know that many of the views I have expressed today - particularly on the importance of APEC and the need for us to embrace the idea of open regionalism - are very much shared by Japan. This was shown most recently by Prime Minister Miyazawa's major statement during his recent visit to South East Asia. I am also encouraged by Japan's determination to bring a higher Asia Pacific profile to this year's G7 Summit and very interested in Prime Minister Miyazawa's proposal for a Forum on the Comprehensive Development of Indo-China. All of this means that Japan is beginning to play a more active role in international and regional affairs - a role more commensurate with its economic strength - and this is a trend which Australia welcomes.

In urging other countries to commit themselves to the region in this way, it is important to understand that Australia is not simply preaching from the sidelines. We are practising what we're preaching.

The past 10 years have seen some fundamental changes in Australia, both economic and social. On the economic side, our financial system has been deregulated, tariffs have been cut and will be cut further so that by the year 1996 the general tariff rate will be down to 5 per cent; transport and communications costs have been reduced; and inflation has been brought down to its lowest annual rate in 29 years. And just as important are the social changes - including the fact that many more Australians are now studying Asian languages and cultures and the fact that because of changing migration patterns, some 3.5 per cent of the Australian population are now of Asian origin (a figure which is expected to grow to as much as 7 per cent in the next 20 years).

These changes have been about positioning ourselves better to take advantage of change in the world, especially the shift in economic power to Asia. They are also in recognition of the fact that the key to long term growth in output, employment and living standards in Australia is strong and sustained growth in our exports. The reforms mean that we are now poised better than ever before to take advantage of the tremendous growth on our doorstep. Indeed it is this new complementarity - which offers great hope for Australia in

the 1990s and beyond - the fact that a more efficient Australian economy, able to compete as effectively with sophisticated goods and services as with traditional commodities, has been created at the same time that the Asia Pacific economies are generating tremendous new demands for those goods and services.

The reforms are already showing up in growth in our exports, especially to the region, and in the diversification of our exports. Sixty per cent of our exports now go to North-East Asia and South-East Asia. Eight of our twelve largest export markets are now in Asia, as are six of our twelve largest import suppliers. We now sell more to South East Asia than we do to the European Community, whereas only a decade ago we sold twice as much to the EC. By the end of the decade it is expected that South Korea will have overtaken the United States as our second largest export market.

And we are no longer just selling these countries our raw materials. We have, for the first time in our history, begun to diversify more and more into higher value added exports of both manufactures and services. Of the ten largest markets for Australian manufactures exports, seven are in Asia. The fastest growth in our export of Elaborately Transformed Manufactures has been to Asia - over 700% in sales to North Asia and over 350% to South-East Asia, in the past ten years.

All in all, few other countries in the world could claim to have so fully grasped the opportunities presented by the rapid growth and structural change that has taken place in the Asia Pacific region.

And it is perhaps worth remembering that, in continuing to integrate our economy with those in the region, we do not do so from a position of weakness. Australia is, after all, the 11th largest economy in the world, the second largest market economy in the Asia Pacific and has a GDP just under the size of the 6 ASEAN economies combined.

But in committing ourselves to the region we do so on the basis of openness - openness to the countries of the Asia Pacific and openness to the rest of the world. It is a policy of inclusion, not exclusion, and very deliberately so. It is founded on the belief that we have something to offer the rest of the world and the rest of the world has something to offer us - and on the belief that as long as a policy of openness remains, greater prosperity for them means greater prosperity for us.

It is a belief that I hope everyone at this conference will embrace.

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