

TRADE POLICY INTO THE 21ST CENTURY: ASIA PACIFIC ECONOMIC COOPERATION, THE URUGUAY ROUND AND EUROPE 1992.

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the Sydney Institute, Sydney, 15 November 1989.

It may be the conceit of every generation that they are poised on the verge of profound change. And yet, as we enter the last decade of the twentieth century it is clear that we are on the threshold of a new era in international relations.

The world political order crafted in the aftermath of the Second World War is nearing an end. The 1990s are shaping up as a formative decade as nations adjust to profound changes in the strategic and economic landscape.

There are a myriad of trends on the international scene which are likely to shape the new order. These include, but are not limited to, the decline of ideological conflict spawned by the bankruptcy of centrally planned economies; the push towards a global economy fed by the standardising drive of international financial markets; the dispersal of political and economic power among a wider group of countries; and the urgency of new trans-national problems from threats to the global atmosphere to drug trafficking.

All these trends have implications for Australia's foreign and trade policies, and each is squarely relevant to any forecast about the foreign and trade policy environment in the twenty first century. Today, however, my look towards the twenty first century will have a narrower focus. I intend to concentrate mainly on two related issues - one regional, the other global - which will be important in shaping Australian trade policy into the next century. I also wish briefly to look at some of the trade policy implications of Europe 1992, especially in the light of the dramatic changes which are currently taking place in Eastern Europe and revived speculation about German reunification.

The regional and global issues to which I am referring are the Asia Pacific Economic Cooperation (APEC) process which was launched at last week's historic ministerial level meeting in Canberra, and the Uruguay Round of multilateral trade negotiations which in January will enter its final crucial year. Both issues have major implications for Australia's economic future, and both are directly related to the government's domestic program of establishing a sophisticated, competitive and outward-looking Australian economy.

Although my focus will be on economic issues rather than the broader strategic trends to

which I earlier referred, and which have been occupying the headlines this week, I want to emphasise at the outset that the relationship between strategic and economic issues is growing closer and closer. As the end of the twentieth century approaches, governments are relying more on non-military methods of safeguarding national security. In the early post-World War II and Cold War periods the emphasis was on military means, but now the economic, political and even cultural spheres are also rightly seen as crucial to extending national influence and promoting national security.

ASIA PACIFIC ECONOMIC COOPERATION

It has become a commonplace to refer to the twenty first century as the Pacific century. Certainly any assessment of Australia's trade opportunities in the next century must accord a prominent place to the Asia Pacific; a region which is already of fundamental economic importance to Australia.

The extent of Australia's trade linkages with the Asia Pacific countries are by now well known. Even if we exclude North America, more than half of Australia's exports and over forty per cent of our imports are directed to or sourced from our Western Pacific neighbours. Seven of Australia's ten largest markets can be found there. About a quarter of the total foreign investment in Australia has come from the Western Pacific region, and almost one fifth of Australia's total investment overseas is located there.

We are already a part of the criss-crossing interdependence of the Asia Pacific region, and our ties to the economies of the region broadly defined are already so extensive that Australia's economic well being depends upon the continuing economic success of the region. Continuing strong growth in the Asia Pacific offers expanded trading opportunities for Australia, and in our view, economic growth in the region could be significantly enhanced through greater - and more structured - regional economic cooperation, covering not only trade issues but investment and economic development issues generally.

The significance of last week's APEC ministerial level meeting was that it launched a process which is likely to play a crucially important role in ensuring that the engines of growth in the Asia Pacific region keep running fast and smoothly.

For the first time, regional governments met at a very senior level to initiate a detailed process of economic cooperation. This was not just a meeting to talk about an idea. It defined in detail the principles which govern such cooperation. It took decisions to set in train a practical work program. It ensured that the concept would not lose momentum by agreeing to hold further ministerial level meetings in Singapore in mid 1990 and in Korea in 1991. It identified an appropriate support mechanism - a senior officials "Sherpa" group - which will meet in Singapore within the next two months to set in train the next round of preparatory work. It made absolutely clear, and gave new substance to, the region's

commitment to a liberal open multilateral trading system. And it left open the question of increasing the number of participants in the APEC process in the future, with the clear implication that such an increase was only a matter of time. For an inaugural intergovernmental meeting this was, by any standards, a very solid set of achievements indeed.

Let me spell some of them out in a little more detail.

APEC and the MTN. A striking feature of our discussions last week was the unambiguous view expressed by all participants that APEC should be an outward-looking process. APEC is not and should not be seen as an answer to Europe 1992 or other trade blocs. Its formative instincts, far from being reactive or protective, are the non-discriminatory promotion and liberalisation of trade regionally and globally. Nor has APEC been conceived as a tactical manoeuvre in the event that the Uruguay Round fails and the international trading system degenerates into competition among restrictive trade blocs.

Not only did the Canberra meeting unambiguously reject the notion of APEC as a trading bloc, but we all agreed that an important objective of regional economic cooperation should be the strengthening of the multilateral trading system. In this, the meeting was reflecting the simple but compelling fact that every economy represented at the meeting relies heavily on a strong and open multilateral trading system. All have built their prosperity through trade, and all see themselves as banner carriers of free and open trade.

The most immediate and practical opportunity for APEC participants to give expression to their free trade aspirations lies, of course, in the Uruguay Round negotiations. It is true that on many specific issues under negotiation in the Uruguay Round, the interests of APEC participants will not always or even often coincide. But on the broader question of improving the GATT system and reducing barriers to trade there is no doubt that APEC participants have a common cause.

For this reason, and because the Uruguay Round is now entering its crucial final year - when sustained and high level political commitment will be essential to a successful outcome - it was agreed that APEC ministers concerned with trade policy should meet in early September 1990 to discuss the emerging results in the Round, and to consider how to unblock any obstacles to a comprehensive and ambitious result. This meeting will be followed by another ministerial level meeting of APEC participants in Brussels in early December on the eve of the Round's concluding session. And throughout the remaining period of the Uruguay Round negotiations, senior officials from among APEC participants will consult regularly in Geneva to exchange views on progress in the Round.

In our discussion of the contribution APEC could make to the multilateral trading system, it was also acknowledged that regional economies would be better placed to show

leadership if we can continue the recent trend of reducing impediments to trade among ourselves, without discriminating against others. The participants recognised that the positive trend of recent years could be disrupted if, instead of continued willingness to undertake structural change, there were to be increased resort to protectionism; and instead of positive joint international action to further liberalise trade, there were to be increased resort to retaliatory or defensive measures.

Work program. A crucially important outcome of the Canberra meeting, so far as guaranteeing momentum for the APEC process was concerned, was the setting in train of a detailed work program. Ministers identified 16 specific projects in four broad areas as constituting the basis for APEC's future work program, subject to further detailed consideration and priority-setting by officials within the next two months. These areas involved general economic studies; work on trade liberalisation; projects to extend cooperation on investment, technology transfer and human resource development; and work to extend cooperation in specific sectors such as telecommunications, maritime transport, and aviation, energy and resources, fisheries, the environment, trade promotion and tourism.

In addition the Canberra meeting agreed that two particular projects should proceed as soon as possible: the compilation of better data bases on regional trade and capital flows; and mechanisms to identify trade, investment and technology transfer opportunities in regional economies.

These decisions, taken together, constitute the launching of an APEC work program that will provide the objective professional analysis which is essential for the systematic identification of the region's many common interests, and the foundation for future policy decisions.

Senior officials will, as I indicated, meet in Singapore in January to consider how best to carry forward these various studies. They will discuss the allocation of responsibilities for undertaking the necessary analysis, the order in which the studies might be conducted and other steps to put in place a viable short to medium-term work program. The group of officials, which will include representatives from the ASEAN secretariat, will also prepare for the next APEC ministerial meeting in mid 1990 which will in turn provide an opportunity to review progress in implementing the work program.

Structure. While it was felt premature at the Canberra meeting for a decision to be taken at this stage on the establishment of a specifically-dedicated APEC secretariat, it was agreed to put in place an effective supporting arrangement to keep the process on track in the lead up to the next ministerial-level meetings. This consisted of the "Sherpa" type group of senior officials to which I have referred. Such an arrangement has proven very effective in providing support to other consultative arrangements such as the G7 major industrialised

economies and, in our view, it meets well the immediate needs of the APEC process at this early stage of its development.

As to the APEC Forum itself, and its institutional structure, Australia has always seen regional cooperation as an on-going process built on careful consensus. We can expect the shape of APEC to evolve as regional countries become more familiar with the concept and more confident of its capacity to achieve practical results. The objectives of APEC are not such that one can set down in advance a timetable for their institutional achievement, because APEC is as much a process of informal consultation and exchange of views as it is a program for cooperation in specific sectors. The form is much less important than the process. We know from other efforts at regional cooperation that it takes time for the institutional structure to develop. Indeed, the pace at which APEC has developed since Prime Minister Hawke launched the Australian initiative just 10 months ago has been quite remarkable when compared with the history of other regional arrangements.

Whatever structure eventually develops to service APEC on a long term basis will draw constructively on existing mechanisms. In particular, I would expect it to have a very close working relationship with ASEAN in a way which is complementary to and not competitive with ASEAN's institutions. Similarly, the APEC process should be seen as building on other regional arrangements including the Pacific Economic Cooperation Conference (PECC). The work of PECC during the last decade has been of great value in preparing the foundations for regional economic cooperation. We are all grateful for that and look forward to a continuing, constructive and parallel development of APEC and PECC.

Indeed we expect that the work program which the ministerial level meeting authorised can draw on PECC's considerable analytical resources. The chairman of the Standing Committee of PECC - who attended the Canberra meeting as an observer - indicated PECC's willingness to assist in this way. The PECC session in Auckland this week reaffirmed this offer and welcomed the progress that had been made.

Participation. Just as we expect the shape of the initiative to evolve, so also do we envisage that the number of participants will grow over time. Any extension can, of course, be only on the basis of consensus among all participants. The guiding criteria for participation - and this is set out among the APEC principles endorsed by the ministerial meeting - is that membership should be based on the strength of economic linkages with the region.

In this context, the Canberra meeting noted that China, and the economies of Hong Kong and Taiwan, were all significant economies, important to the future prosperity of the Asia Pacific region, and agreed that it would be desirable to consider further the involvement of these three economies in the cooperation process.

Ministers have authorised senior officials to undertake further consultations on the question of wider participation and to report to the Singapore ministerial meeting. The January meeting of officials will be acting on these instructions. In the first instance, the focus is likely to continue to be on the modalities of involving China, Taiwan and Hong Kong in the process. But further down the track, it is possible that even more economies, including those of the Pacific Islands, Latin America, Indo-China and the Soviet Union may wish to participate.

Australia will certainly keep an open mind on expanded participation, providing a sound case can be made in terms of the interlinkage with the economies of the region: it is this linkage which lies at the heart of the concept of increased regional economic cooperation.

The APEC Achievement. The Canberra APEC meeting signalled that the region was ready to move beyond in-principle support for regional economic cooperation, that Asia Pacific economies were ready to put some flesh onto the bones of an idea which, while it has been discussed under various guises for the last twenty five years, has never before been given practical endorsement at so senior a level. Regional economic cooperation now has a clearer sense of direction and a sharper focus.

We saw last week in Canberra the birth of a process with potentially far reaching benefits for us and other Asia Pacific economies. And we can all take great pride in the fact that it was Prime Minister Bob Hawke and Australia which played the role of mid-wife.

APEC was only the birth of a process, and by no means all that needs to be done to improve our economic prospects. We, as a Government, do not see APEC as any kind of substitute for continuing with our program of macro and micro economic reform. Nor does it absolve the Australian private sector from the responsibility to nurture a more sophisticated export culture in Australia. APEC is not a magic wand which will guarantee Australia's economic future. But it can develop into a process which generates opportunities for Australian exports and profitable investment which we may not otherwise have had. And here, as elsewhere, it is the role of government to pursue such opportunities. It is not for us in government to secure or guarantee markets, but we can help to set the ring within which economic enterprise operates leaving it to the private sector to translate opportunity into achievement.

URUGUAY ROUND

APEC is only one element in the Government's trade policy. And to the extent that it is a long term project, it is not the most urgent trade policy challenge we face. A more immediate concern for Australia - and one which will be important in shaping the trade

policy environment into the next century - is the Uruguay Round, which is very much the main trade game today.

I have already touched on the supportive relationship which has been firmly established between APEC and the Uruguay Round, but I also want to offer some comments on where the Round may be heading because its outcome has obvious consequences for Australia's trade interests.

The assumptions underlying APEC and Australia's position in the Uruguay Round are similar. Both reflect a commitment to freer and fairer trade and the strengthening of the multilateral trade framework. Both are concerned to reduce barriers to trade; to challenge the false appeal of protectionism; and to slow down resort to unilateral and bilateral solutions to multilateral trade problems.

In January the Uruguay Round will enter the last year of a four year negotiation. There will be just twelve months to cut and polish a package deal, covering 15 distinct but related areas, among almost 100 countries. Michael Duffy has rightly likened the negotiations to simultaneously playing 15 chess games on interconnecting boards, with pieces which move in no set pattern according to rules which have never been properly written down!

At this stage the negotiations are still on the rails, but next year will be a real test of political will and negotiating endurance. There is no doubt that the recent US proposal on agriculture has breathed new life into the negotiations. It represents a strong and flexible package which addresses the key negotiating issues and draws heavily on ideas that have been promulgated by the Cairns Group. At the heart of the US initiative is a welcome proposal to convert import access barriers to tariffs, and the eventual prohibition of export subsidies and other trade distorting support measures. I would add that the United States proposals are aimed at those support measures that directly distort international trade. They do not rule out government support in other areas - such as taxation concessions, crop insurance, social security or drought relief - which do not have the effect of distorting international trade in agriculture.

The EC's initial reaction to the US proposals has been predictably negative. Japan's response has also been cool with an emphasis on the increasing domestic difficulties faced by Japan in reforming its agricultural practices. We should not be too discouraged by such responses. They do not represent the final word of the parties concerned. What is important now is to build on the momentum which the US proposals have injected into the negotiations. This momentum has to be maintained if we are to have an acceptable outcome by December 1990. The APEC meeting's decision to hold two ministerial level meetings in the last quarter of 1990 will be helpful in this respect.

The Cairns Group will also have a vital role to play in helping to forge a successful outcome. Not just in terms of finalising its own comprehensive program on agriculture - which I hope can be done at the Cairns Group meeting which Michael Duffy will be chairing in Chiang Mai, Thailand later this month. But also in terms of the group's basic objective, namely, to seek to bridge the gaps between the positions of the EC, the United States and Japan.

So at this stage it is difficult to say how the Uruguay Round will come out. We have made a great deal of progress to date, even if some of it has been uneven in terms of Australian interests. Substantial advances have been made in the negotiations on services, where there is now broad agreement on the concepts and principles which might be part of a framework agreement for services trade. The negotiations on Trade Related Intellectual Property Rights (TRIPS in GATT-speak) are addressing a good deal more substance than would have been earlier expected.

But in other crucial areas such as market access - the traditional heartland of GATT negotiations - much remains to be done. We would like to see more progress in the negotiations on Natural Resource Based Products where we have a particular interest in reducing the massive distortions in the international coal market.

So the task ahead is an enormous one, and the final result will need to be a carefully balanced package in both political and economic terms. I have no doubt that - despite the magnitude of what remains to be done - we can get there providing the political will is maintained.

EUROPE 1992

The third and final trade policy issue I wish to address is the proposed establishment by 1992 of a single European market among the twelve European Community member countries.

What precisely Europe 1992 will mean for Australia's trade with the EC is still being worked out, sector by sector, decision by decision. Much will depend on whether the single market turns out to be a genuine elimination of barriers and discriminatory regulations, or whether it will simply be the pushing out of the internal walls of protection to the EC's external frontiers. EC rhetoric on this point is consistently encouraging but Australia is naturally wary given our experience under the Common Agricultural Policy and the very uneven playing fields that the EC has erected in the minerals sector, especially in the area of coal subsidies. We are also watching carefully, among other things, what the single market will mean in terms of standards definitions, anti-dumping regimes, and the possible application of lowest common denominator quantitative restrictions.

So from Australia's point of view the debate on whether Europe 1992 will involve the creation of "Fortress Europe" is unfortunately coloured by the fact that in terms of EC policies in the agricultural and minerals sectors the ramparts have long been in place, with the drawbridge up and the bolts shot home. We hope the past will not in this instance be a guide to the future, and that the effect of Europe 1992 will entail not only the establishment of one of the largest and most affluent markets in the world, but also a market which is outward-looking and confident of its international competitiveness. Australia and the rest of the Asia Pacific region need have nothing to fear from such an open and dynamic European single market. International trade - if it is free and fair - is not a zero sum game where the advance of one is at a cost to another.

The breathtaking pace of change in Eastern Europe, most recently and most dramatically in East Germany, has led some to speculate that we may be on the verge of a common European home or a United States of Europe spanning both East and West Europe and embracing a united Germany.

Yet for all the profound change that has undoubtedly come to East Europe this year, it would be unrealistic to assume that the current strategic and political divisions in Europe can disappear overnight. We all welcome unreservedly and with genuine delight, the fundamental democratic freedoms which are now being introduced into an increasing number of East Europeans countries. We also view as a very positive development the move towards economic reform in Eastern Europe. Over the longer term this should bring results not just in terms of improved living standards, but also in terms of stronger economies and new trade opportunities. These are all historic developments.

But it is a big step from acknowledging basic human rights and the failure of the command economy, to putting in place the conditions under which German reunification, in some form or another, can take place - with all the implications that would have for strategic and political alignments within the European continent and beyond. It is true that in the past few months the pace of change in Eastern Europe has been such as to redraw the boundaries of what we had previously thought to be achievable. But even allowing for the fact that the unthinkable has become the routine, the creation of a genuine common European home - one which is united around shared political and strategic perceptions - remains a quantum leap from present day reality.

Let me conclude with these remarks about trade policy into the twenty first century. The Hawke government has sought to bring to the economic problems facing Australia a truly national strategy. It is an approach within which foreign and trade policy is co-ordinated

with, and complementary to, domestic policy. Australia's economic future is inextricably linked with our capacity to trade effectively in the international market place. To secure that future we need an economy which is competitive and outward-looking; an economy with more export depth, and with the confidence to move beyond its traditional strengths in agriculture and minerals.

To achieve these objectives 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. But we also need a trade policy which complements our domestic objectives; one which seeks to ensure that the external trading environment is conducive to the growth of Australian exports. That trade policy has many strands to it - bilateral, regional and multilateral. Each is important in helping to ensure that the Pacific century does not leave Australia behind.

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