

AUSTRALIA AND EUROPE: THE IMPLICATIONS OF CHANGE

Address by the Minister for Foreign Affairs and Trade, Senator Gareth Evans, to the Committee on the Economic Development of Australia (CEDA), Sydney, 7 March 1990

Europe is no stranger to political change and shifting alliances. It is the birth-place of balance of power politics, and in this century alone its internal political map has been drawn and redrawn over and over again. Yet even measured against this historical legacy, the changes that are currently sweeping the European continent are of major significance.

Over the last few months it is Eastern Europe's exit from communism, and President Gorbachev's efforts to reform what the others have rejected, which have grabbed the world headlines. At times it has appeared that history has been put on fast forward. But developments east of the Elbe - dramatic as they are - should not blind us to other significant changes which are taking place in Europe: the growing strength of political cooperation among the EC twelve, their determination to achieve the target of a single European market by 1992, the inexorable momentum towards German union, the forging of new links between the EC and the East European countries, and consultations on a "European Economic Space" embracing the EC and the six member states of the European Free Trade Association (EFTA).

The whole of Europe, and not just its eastern wing, appears poised to enter a new era: an era of wider and more structured internal cooperation. It is still premature to speak about a single Europe as if it were already an integrated whole. There are in fact not one but several Europes: Western Europe, Eastern Europe, Central Europe, Scandinavia, the Europe of the Economic Community, of EFTA, of the 35-nation Conference on Security and Cooperation in Europe (CSCE) process, which produced the Helsinki Accords of 1975 - and so on. All are joined to some extent by shared cultural and intellectual traditions, but each still inhabits separate - if increasingly interlocking - political, strategic and economic circles.

Yet if the vision of a United States of Europe remains a long way away, there can nevertheless be no doubt that the current political and economic demarcations of Europe are shifting in a pan-European direction. The so-called Europessimism of the early 1980s appears to have vanished without trace. In its place we hear renewed appeals to a common European heritage, discussion about a new framework for European security, and the construction of a Common European Home.

These developments have implications going well beyond Europe, as one would expect in

view of Europe's prominent place in the post-war structure of international relations. They have implications - both strategic and economic - for Australia and for the broader Asia Pacific.

Strategic implications. The strategic implications are far reaching. Scholars can argue whether or not the Cold War is officially dead, but there can be no doubt that the East-West divide, for over forty years the touchstone of international relations, no longer involves the zealous crusade it once did. This is not to suggest that the US-Soviet relationship has ceased to be the decisive factor in the strategic equilibrium of the world. Whatever further arms control agreements are harvested in the new warmer climate of East-West relations, the United States and the Soviet Union will remain the pre-eminent military powers of the world. Global security will continue to pivot on the fulcrum of nuclear deterrence. But within this framework, cooperation has replaced confrontation as the leitmotif of East-West relations, and that is a large step forward.

The Soviet Union, faced with economic sclerosis, has decided that it cannot sustain a foreign policy where grasp exceeds reach. It has embraced new thinking in foreign policy because it now accepts that the old thinking - in both domestic and foreign policy - cannot pay the expense account of superpower status.

The end of confrontation is clearly a most welcome development, and one that offers even further promise in areas such as arms control (including massive force reductions in Europe as signalled at the recent "Open Skies" conference in Ottawa), human rights, democratic reform and multilateral cooperation. But a new era also means the loss of old certainties as East-West relations move into largely uncharted waters. It means the need to rethink many of the structures and assumptions which previously underpinned East-West relations.

In Europe, this translates into the need to craft a new framework for European security. Many images and metaphors have been advanced to describe what this new framework might look like. None have captured the imagination more than the image of a Common European Home: the vision of a single sprawling political and economic mansion where the rooms are separate but the internal doors open. The Common European Home is an appeal to a new security architecture. The old architectural symbols of concrete walls and iron curtains are to be replaced with the ultimate symbol of security - the home.

There are however several issues which will need to be resolved before Europe has in place a new security design. What is the long term future of NATO and the Warsaw Pact, the military structures which have kept Europe in a tense but durable stasis, without war, for 45 years? Where does the Soviet Union fit into a Common European Home, and what

is to be its security relationship to Eastern Europe? On what basis will the United States - which has learnt in the course of two World Wars that its security is linked to that of Europe - continue to be engaged on the ground in Europe? It was, after all, the US vision and US prosperity which launched the reconstruction of Western Europe after the War.

More immediately, there is a need to address the place of a united Germany in the changing jigsaw of European security. The timeframe for settling this issue is contracting daily. German unity is on a fast track.

Australia supports the idea, and welcomes the reality, of German self determination. At the same time, German unity does raise some questions about how a united Germany will fit into the changing structure of European security, and it will be important in the longer term that unification should follow the principles outlined in the Helsinki Final Act.

In the post-War order the two Germanies were the front line of the Cold War. Today, with German unity around the corner, it makes little sense to draw the military boundary of East-West competition along the Elbe. There is already, as Henry Kissinger has observed, an incongruence between Europe's political and military boundaries which cannot be long sustained.

Such contradictions - born of transition and change - will not be easily resolved. They raise many difficult questions. Will a united Germany be a member of NATO, perhaps with a demilitarised eastern flank, or standing aside from NATO's integrated command? Will there be pressures within a united Germany for the withdrawal of all foreign troops?

Australia is no more than an observer, and a distant one, of these issues, but we nevertheless have a vital interest in them. We do not have a direct strategic interest in the security of Europe as such. But to the extent that Europe is the most sensitive barometer of East-West relations, and pivotal to the continuing stability of nuclear deterrence, what happens there matters to us. There is a need, whether we like it or not, to maintain deterrence for so long as nuclear weapons exist (and there are still in existence some 50,000 nuclear warheads with a destructive capacity of nearly 16,000 megatons - equivalent to 3.3 tons of TNT for every man, woman and child on earth), which is one reason why the importance of the Joint Defence Facilities in Australia will be undiminished for the foreseeable future in the post-Cold War world.

There will also, inevitably, be a flow-on from the new understandings and accommodations in Europe to the Asia Pacific region, although it could well be delayed and will take different forms. A central issue relevant to both Europe and Asia concerns the possible drawdown of the United States military presence, and it is here that Australia has a good deal at stake. It is manifestly important in the interests of regional stability that any such change in the US presence should be gradual and predictable.

In South East Asia, a region of primary strategic interest to Australia, it is the case that the United States - for a combination of reasons relating to East-West changes, budgetary pressures, and the rising economic strength of regional states - is likely to be in the future a less dominant military and strategic presence. This is not to suggest that the US will wish to withdraw from South East Asia. It will continue to have major strategic interests there, not least its vital interest in maintaining maritime passage through the region. But, as I spelt out in my major Parliamentary Statement last December on Australia's Regional Security, it seems likely that the primary focus of United States attention in South East Asia and the broader Asia Pacific will gradually shift from geo-political interests to economic interests.

The new thinking in Soviet foreign policy will also inevitably have an impact on the security of the broader Asia Pacific region. President Gorbachev may have abandoned ideological conflict as the basis of Soviet foreign policy, but he still sees the Soviet Union as a superpower with a global reach and global interests. The Soviet Union has significantly reduced its naval deployments in the Pacific outside of home waters and it seems committed to the reduction - and probably ultimately the complete withdrawal - of its presence at Cam Ranh Bay. This suggests a declining emphasis on military means in the pursuit of Soviet interests in the Asia Pacific. It may signal a desire to begin the long process of more closely involving the Soviet Union - particularly the Soviet Far East - in the dynamic economic life of the Asia Pacific. This was certainly one of the strong impressions left with us during the recent visit to Australia by Prime Minister Ryzhkov.

Overall the improvement in the East-West climate is, of course, a positive development for the security of the Asia Pacific, but it is not without significant uncertainties. Regional perceptions of the Soviet threat are declining, and on issues such as Cambodia we are certainly witnessing a very much more constructive Soviet role. At the same time, there are regional concerns about a power vacuum developing if things move too fast on the East-West front. Japan's role will be important as will that of other major powers such as China and India. The US-Japan relationship is likely to hold up as a sheet anchor of North Pacific security, but there are many intriguing questions about how the Japan-Soviet relationship might develop. Changes in Europe are likely to accelerate the evolution of the Asia Pacific from a region with one dominant and well-disposed external power, to a much more complex strategic environment in which there will be shifting associations of regional states, and a greater variety of external actors influencing regional developments.

Economic implications. The security implications of political change often take time to work their way through the strategic environment. Economic consequences, on the other hand, are usually more readily apparent. Certainly, in some respects it is easier to grasp the economic than the strategic implications for Australia of change in Europe, although even here the lie of the land is by no means thoroughly mapped.

Europe is a market of world significance. The EC single market alone will - with some 320 million consumers - rank as the largest developed market in the world. The FRG is already the world's largest exporter. Four of the Group of Seven leading market economies are found in Europe. Even leaving aside the potential of the East European market, what happens inside the European economy is going to have implications for the trade prospects of a great many countries, including Australia.

The EC is our second biggest export market after Japan, and our largest source of imports. It has provided more than twice the amount of investment in Australia than Japan, and is a third as big again an investor as the United States.

The changes currently taking place in Europe pose several questions squarely relevant to Australia's economic interests in Europe. What impact will the creation of a single EC market by 1992 have for Australian exports of goods and services to the EC? Is Europe entering a period of internal pre-occupation to the detriment of its capacity to liberalise trade practices and to make a constructive contribution to the crucial Uruguay Round of multilateral trade negotiations? Will the economic problems of Eastern Europe mean that the EC will have less trade, aid and investment flowing into the the Asia Pacific? These are just some of the questions which require thoughtful consideration if we are to act effectively to protect our economic interests in an increasingly fluid European environment.

Clearly the EC is entering a dynamic phase. The single market involves the deepening of existing commitments. We will almost certainly see a gradual broadening of the Community's ambit. Economic cooperation arrangements have been negotiated with Poland, Hungary, the USSR and (if time permits) the GDR. In the next few years we are also likely to see the closer association of the East European countries with the EC. Exactly on what terms and in what time frame is unclear. German unification would, as a matter of law, immediately involve the GDR in full participation in the Community as part of the larger Germany. In reality this gives rise to some extremely complex adjustments both for the Community and the GDR.

The creation of a single market by 1992 reflects the new reality that the European way of doing business is being integrated - whether it is a matter of handling imports, assessing standards, managing investment flows, organising banking, or coordinating transport and telecommunications systems. Integration in itself holds no danger for Australian interests, although each dimension of this process will inevitably present particular challenges in specific sectors for Australian business. Indeed, integration offers opportunities: it is likely to result in a more competitive and dynamic European economy with the advantages of greater economies of scale, a wider choice of base for investment, and a bigger pool of skilled labour. Already Australian banks and insurance companies have taken advantage of the liberalisation of EC financial markets. Australian transport companies have established extensive EC wide transport networks and secured significant market share.

Our hope that Europe 1992 will prove to be trade creating, rather than trade diverting, is however tempered by our negative experience with the EC's one previous attempt at an integrated approach - the Common Agricultural Policy: a policy which has not only closed off large areas of the EC market but also distorted other agricultural markets around the world. We are not suggesting that the sins of the CAP - unabsolved though they remain - will necessarily be visited on Europe 1992. EC statements on the single market are consistently encouraging in their content, and consistently dismissive, in their rhetoric, of fears about fortress Europe. Australia retains an open mind on the benefits of a single market, and will certainly be doing all that we can to encourage Australian industry to take advantage of it. But we will need to watch whether deeds back up the Community's words.

A crucial test of whether a "new Europe" will accept its global responsibilities will be the EC position, especially on agriculture, in this final year of the Uruguay Round. The Uruguay Round is the most complex set of multilateral trade negotiations yet launched, with some 15 different heads of negotiation being simultaneously pursued. Australia has a lot riding on its outcome. If the Round is to succeed, it will require a direct and sustained commitment at the senior political level of the governments of all major participants, and particularly perhaps those in the EC. It is only through this sort of political leadership that the various interlocking negotiating deals can be cut. It is only through taking a broad and balanced view of the international trading environment that hard decisions can be made and politically sensitive issues put in their proper perspective.

There is a risk that the EC may be too preoccupied with Eastern Europe and other intra-European developments to give the Uruguay Round the priority it deserves. There will, no doubt, be a temptation on the part of some EC members to argue that now is too uncertain a time for the EC to commit itself to reform of the CAP, or to winding down coal subsidies and other domestically sensitive EC practices which distort international trade.

It will be critical that developments in Eastern Europe do not in fact operate to detract from the attention that the EC continues to give to the Uruguay Round. The outcome of the round will be very important for the Community's long term economic and trade interests and for the future of the multilateral trading system itself. There were some positive signs given recently that the EC is not taking its eye off the Uruguay Round ball. Indications were given to Mr Duffy during his visit to Europe last month that the EC clearly wants the round concluded on time at the end of this year and the FRG is now prepared to allow coal subsidies to be included in the negotiations, something it has resisted up until now. We and others, such as the US and Japan, who are critically interested in the successful outcome of the round will, however, need to be vigilant in our efforts to avoid the EC losing interest in the negotiations.

The countries of Eastern Europe - eager as they are to participate more fully in the international economy - themselves stand to benefit from a fair and market-oriented trading system. It is in their interests to be part of the multilateral trading system, based on the GATT, upon which the market economies have relied to pursue their commercial trading interests for the last forty years. Countries like Poland, Hungary and the GDR have agricultural sectors with significant potential. It is to their advantage that world agricultural trade be put on a more liberal and open footing.

Australia certainly has a direct interest in the economic success of Eastern European countries because of their potential as a market for Australian goods and services. At a time when Eastern Europe is looking to the West for trade and investment, technology and training, Australian companies - particularly the larger companies which are better placed to enter the market without relying on limited local infrastructure - should look closely at what the East European market has to offer. Returns will not be quick and setting up will not be easy, but there are opportunities for Australian firms in areas like telecommunications, transport, agricultural processing, environment protection technology and tourism, as well as in the more traditional areas of agriculture, raw materials and manufactures trade.

Some commentators have speculated that Eastern Europe's economic needs may lead to the diversion of Western European investment away from the Asia Pacific. Such fears are, in my view, somewhat exaggerated. Although there will, especially in the early transitional period, be a considerable preoccupation of executive time, and probably investment resources, with Eastern Europe (and this will especially be the case with FRG business in the GDR), attractive investment proposals in the Asia Pacific - still very much the fastest growing region in the world - are not going to lose their appeal to potential investors simply because of developments in Eastern Europe. It will not be a matter of growth in Eastern Europe occurring at the expense of growth in the Asia Pacific region, but rather of a new growth centre emerging to everyone's ultimate benefit: trade and investment should not be seen, in this sense, as involving a zero sum game in which the win in Eastern Europe will be compensated with a loss in our region.

The situation regarding EC aid funds is less encouraging, at least so far as anticipated future increases are concerned. Most aid donors tend to increase their aid budgets each year because of their commitment to maintaining development assistance at a given percentage of GNP, rather than just in real terms, and the poorer countries of the world, including in Asia, have been the beneficiaries. But it is very likely in the future - especially if the OECD allows Eastern European countries to be defined as "developing" for aid definition purposes (something which Australia has been resisting) - that a good deal of this additional anticipated assistance will flow instead to Eastern Europe.

Europe and Australian diplomacy. Let me conclude with some observations about the place of Europe in the wider conduct of Australian diplomacy. It will be clear from all that

I have said that Europe continues to be important to Australia from both a strategic and economic perspective. It is not just intellectual curiosity and sentiment which invite our interest in what is happening in Europe.

Significant Australian national interests are tied up in those changes, and it falls on our diplomacy to ensure that those interests are protected.

We bring to that task several assets: strong historical links, membership of the Western Alliance, a high profile in multilateral diplomacy - including trade diplomacy - which has made us well known to European governments, a strong diplomatic presence on the ground in Western Europe, and several European migrant communities that have retained many ties with their countries of origin. Our close involvement in Asia Pacific affairs - especially our leading role in the Asia Pacific Economic Cooperation (APEC) initiative - has also made us a much more relevant interlocutor in the eyes of distant Europeans.

But if we are to marshal these advantages to full effect, we also need to adapt our diplomacy to the changing face of Europe. In particular, we will need increasingly to think of Europe as a single political and economic entity. We also need to continue our efforts to deepen our dialogue with the European Commission, to extend our contacts with Eastern Europe, and to strengthen the network of bilateral ties which we have throughout Europe.

The Government is committed to this approach. We have increased the number and frequency of ministerial-level contacts with EC member states. We have taken a series of decisions to expand our dealings with Eastern Europe, including our diplomatic presence there, beginning with the opening soon of a new embassy in Prague. We are actively exploring ways of further enhancing our dialogue with the European Commission. We have pursued fresh commercial opportunities with the Soviet Union, and generally placed our relations with it on a more mature and diverse footing.

None of this is to suggest a return to the Euro-centric days of Australian foreign policy: those days - despite the recurring perceptions of some journalists short of a cliché - have long since gone. Our attention to Europe in no way diminishes the importance we also accord, and will continue to accord, to our Asia Pacific interests. Single mindedness may be a virtue in some circumstances but it has no place in foreign policy, where multiple interests have to be pursued in many places at the same time.

Ties of history, culture and sentiment play a significant role in defining the character of relations between nations. They have certainly been important ingredients in the development of Australia's links with Europe. But in themselves they are not the driving force in our approach to Europe. We value our links to Europe not because of the legacies of the past - important though they are - but because of the strategic and economic needs of

the present and of the future.

* * * * *