



Asia-Pacific  
Economic Cooperation

The Australian APEC  
Study Centre

MONASH University

## Monash APEC Lecture 1999

### *Winning in the global economy: Australia's trade policies for the new millennium*

**The Hon Kim Beazley MP**

**Leader of the Opposition**

---

Soon after last year's Federal Election, I committed Labor to undertaking in this term of Parliament a comprehensive policy review to offer an alternative framework for government in the 21st century.

In March of this year I made a speech outlining some of the key questions that policy review must answer. I also signalled that I would be making a series of speeches to address those questions in more detail.

My topic today - in the first of these more detailed speeches - is winning a place for Australia in the global economy, and the trade strategies we need to achieve that.

There is a lively intellectual debate spanning virtually every journal and news organ in the world about the virtues or otherwise of globalisation. Like any such debate, it is sustained by deep divisions of opinion.

I incline to the positive view. To the more intelligent critics of globalisation, I can say only this: "interesting analysis, rotten solutions". The only compelling critique of globalisation is that it can produce inequalities between nations and within nations, and indeed it can. But I am yet to see any credible analyst saying it will decrease overall global wealth.

The one guaranteed route to global wealth destruction lies in the downward spiral of retaliative protectionism. One only has to look at the Smoot-Hawley Tariff Act of 1930 to see the effect: protectionism climbs, steadily choking off international trade, reducing economic growth with it in country after country; workers lose their jobs and spending power, and before you know it, a recession becomes a depression.

The problem with beggar-thy-neighbour protectionism is that everyone has neighbours. Labor will not stand for it. In counterpoint to the vicious circle of protectionism, there is a virtuous circle.

I think it is best put by my colleague Lindsay Tanner when he says, and I quote:

*Throughout human history, nations which have closed themselves to outside ideas and influences have declined, while those which have embraced change have prospered. The more we engage with the peoples, products and ideas of other nations, the stronger we will grow. A closed Australia is a blueprint for rapid economic and social decline.*

The question, then, is not whether to engage, but how to engage. This is where I pick up the thread that will run through all of my Pathways speeches - the need for fairness as the centrepiece of Australia's economic progress.

The importance of this goal - its absolute centrality to any civilised agenda for 21st century government - was affirmed by a recent OECD study of globalisation. The study concluded that national governments face two options in their policy responses to the global economy.

The first is to become what they call the "night watchman" state, in which government attends only to military, judicial, administration and regulatory issues. Social services are devolved, with many left entirely to the private sector. Innovation and new ideas are concentrated among a few private companies, not diffused across the economy by government involvement, and in the long run not only is income inequality widened, but technological advance is inhibited.

The second option is to make the transition to a "knowledge-based society", relying on leadership from government in diffusing the benefits of innovation and new technologies, and in boosting educational attainment. Productivity grows, information is shared, and people are not left behind.

No-one observing the Howard government over the last 3 years, and especially since the budget-slashing exercises of 1996 and 1997 can fail to recognise the "night-watchman" state. It is the received wisdom of conservative governments all around the world.

Labor's vision for Australia is that of the knowledge-based society. It is the only vision which grasps the two essential points about globalisation: -

- Firstly, that our future prosperity depends on a deepening and widening engagement with the global economy;

- But that at the same time, the philosophy of modern government must adjust to an age where it is possible - perhaps for the first time in our history - for Australia to scale the heights of national prosperity while leaving large numbers of our fellow citizens behind.

Fundamentally, trade policy for the 21st century must be about delivering the high-skill, high-technology, high-wage future Australians deserve. Many of the elements are already there.

The global economy already shapes how Australians work. Much international trade today is actually firms trading within their own structures, while communications and transport technologies often make it as easy to trade between states as within them - just ask a meat producer exporting from Grafton, or a car parts maker from Adelaide, or an advertising executive in Melbourne.

Already our industries are competing against the world. But they often do so without the advantages of their overseas competitors - specifically, access to a large domestic consumer market, providing the opportunity to expand and drive costs down.

Put simply, the competitive footing American and European industries can establish at home, Australia needs to seek through trade with the rest of the world: we need trade to find markets for the innovative activities of Australian scientists, researchers, and commercial innovators; and we need trade to strengthen traditional Australian industries, opening new markets for new products.

The task for Australia is to recapture the confidence with which we have looked at the world beyond our shores in years gone by. The pioneer, though he is not much recognised for it these days, was Ben Chifley. It was his Labor government which signed the General Agreement on Tariffs and Trade in 1947. He was to begin what has been a proud Labor record of Australian trade liberalisation.

Gough Whitlam, with his bold and visionary tariff cuts in the 1970s, signalled that the future for Australia was in opening itself to the world, and competing on equal terms.

And trade policy was at the centre of the Australian economic transformation after 1983. Before 1983, the Australian economy was relatively closed to the world, and highly dependent on primary exports.

Similarly, before 1983, trade policy could not in all honesty be said to have taken a global perspective. It was about seeking sectoral access to protected markets - picking up what we could, for instance, after the trauma of Britain going into the Common Market in 1973.

From 1983 onwards, the vision was of a new Australia: the dollar was floated, gearing our economy to adjustments on international markets and exposing Australian business to the discipline of international competition. At the same

time, industries were helped to find a footing in this new open economy via restructuring schemes such as the Steel Plan and the Car Plan.

Trade policy after 1983 reflected this increasing emphasis on open trading and investment arrangements on a global basis and across a large range of sectors. The emphasis was on coordinated trade diplomacy, and on applying intellectual force through leveraging our presence in multi-lateral fora.

And the results are there for all to see. Over Labor's period in office, Australian exports grew by an average of just over 10% every year for 13 years. We started with \$40 billion worth of national wealth from selling our goods and services overseas. Twelve years later we were raising \$100 billion - a quite phenomenal effort.

Exports of manufactures grew from less than 20% of total merchandise exports to over 33% - from one-fifth to one-third. Services grew from 18% of total exports to 23%.

Today, nearly 1.7 million Australian jobs (or 1 in 5) depend on exports; our exports to East Asia alone support around 750,000 jobs; tourism exports support over 250,000 jobs; and in the manufacturing sector, export-related jobs pay on average 20% more than non-export related jobs.

And, I might add, tariff reductions provided perhaps the biggest indirect tax cut in Australian history. When Labor left office, cars imported into Australia were around 25% cheaper than if the tariffs of a decade before still applied. Clothing and footwear were around 14% cheaper. Labor's tariff cuts gave the average Australian family an extra \$1000 per year.

The benefits have been felt in terms of our international competitiveness too. For this, I can quote no better authority than current Treasury Secretary Ted Evans, who said recently of isolationist policies, and I quote:

*Many might also see [an] irony in such suggestions arising at the very time that we are beginning to see the fruits of a decade or so's application of more outward-looking policies ... Economic shocks can be regarded as the 'stress tests' of economic policies and institutions ... We can regard the Asian crisis as the stress test of the policies of the 1980s and 1990s ... To avoid a serious domestic downturn in the wake of an adverse international shock is a very important social achievement.*

I'm not here today to talk about the record of my political opponents, but some comments are necessary. Trade policy has suffered under what I call the two cardinal sins of this government's vision of Australia in the world.

The first is the government's apparent obsession with punishing those policy areas it saw advantage in portraying as 'elite distractions'.

Because the government has no sense of how strategic gambits on the international stage are directly relevant to our progress as a society, it has invested no high-level energy into pursuit of forceful international economic diplomacy.

And so we saw things like the 20% across the board cut in the budget and staff of the Department of Foreign Affairs and Trade, both in Australia and at overseas posts. And I think I'll leave the Ministers out of it, but you know what I mean.

The second sin was the Coalition's apparent desire to make political capital out of asserting a bit of Asia-scepticism. The sub-text here was that the Labor government wanted to make Australia a part of Asia, and the Howard government would be there to re-invigorate "traditional" relationships.

I don't need to go through the whole sorry tale of Hansonism, and the Prime Minister's response to it, but I think his continuing insistence that Australia under Labor was pursuing an "Asia only" policy when 40% of our exports were not going to Asia gives you an idea of just what the real agenda was.

Of further concern is the Howard government's assertion that trade policy needed to shift emphasis from multilateral to bilateral negotiations.

Bilateral market access is a vital pursuit, and must be a core element in any nation's trade diplomacy and export encouragement efforts. And it has been - both under Labor's Trade Ministers (including two of my current Shadow Ministers - Bob McMullan and Peter Cook), and, I am happy to acknowledge, under the energetic and avuncular incumbent.

Only this morning, the Financial Review featured some of the benefits of this work in the Middle East: Holden Commodores in the United Arab Emirates; Toyota Camrys (and even a Perth coffee franchise) in Dubai.

These successes are being replicated all over the world - in Eastern Europe, Latin America, and the Indian sub-continent. It is work which government must continue to support for its benefits, as Tim Fischer would say, from Geraldton to Grafton.

But bilateralism must be integrated into a coordinated strategy which integrates both the regional and the global dimensions of market access. Rather than pursuing stand-alone bilateral initiatives, these can and should be pursued as components of broader trade reform strategies across the Asia-Pacific region - and regions further afield - and across as many economic sectors as possible.

Yet progress towards global and regional trade liberalisation since 1996 has been glacial at best.

I will address these priorities in a moment, but first I want to look at the challenges for Australian trade policy emerging from the alignment of major players on the global stage.

This year and next we must deal with the ramifications of a US Presidential campaign and the attendant likelihood of a resurgence of protectionist sentiment in the United States. We are starting to see the signs in areas such as lamb and steel.

Labor believes that any US imposition of tariffs and/or quotas on lamb would be inconsistent with US calls for freer world trade, and their actions - including those over the Howe leather case.

Alan Greenspan has been warning against this protectionist trend for some time now. But it is hard to shake the suspicion that some major trading powers are becoming less serious in their commitment to free trade - or worse - that they might be setting the WTO up for failure.

The mounting number of disputes gives a disturbing impression that the commitment is not to free trade, but to using free trade rhetoric to extract national advantage. If these games continue being played, Australia runs the risk of being crushed. And the concerns are not just political.

As Alan Mitchell noted in the *Financial Review* this week, the US's strong economic performance - with growth around 4%, very low inflation, domestic demand continuing to expand, unemployment down to 4.2%, and a booming stock market - has been the best thing the free trade cause has had going for it these last few years.

But it can't last forever. A high trade deficit, emerging labor shortages and low household savings are clouds on the horizon. Overnight, Alan Greenspan warned about imbalances in the US economy.

The irony is that the first political victim of a US economic slowdown could well be the support for free trade which was so important to America's economic strength in the first place.

We must also deal with the oscillating bouts of tension in the relationship between the US and that emerging giant China, which seem to have characterised their relations for some considerable time now.

And we must also, of course, contend with the next phase of Europe's development as an economic entity. As profound as the European Common Market was for Australian trade policy in the 1970s, so too the advent of European Monetary Union and the rise (or fall) of the Euro will play a powerful role in our trade policy as we go forward.

As many have pointed out already, if the Euro does nothing else, it will make the Australian dollar the sixth most traded currency in the world.

The Asian economic crisis has - as was to be expected - substantially blunted the move to regional free trade, and is without question the most significant factor in the failure of the 1998 APEC Leaders' Meeting in Kuala Lumpur. As regional economies begin to recover, it will be vitally important to re-engage them in the quest for economic reform and trade liberalisation.

In general, it is fair to say that the strides made in the early 1990s and before in the name of trade liberalisation around the world have slowed significantly in the latter half of this decade.

Australia must be equal to the challenge of restoring the momentum, and finding a place for Australia in a new global economic order.

And so I turn to the broad strategies Labor believes must be central to Australia's trade policy in the next century. I summarise these under 3 key headings:

- Firstly, throwing our weight into the initiation and implementation of a Millennium Trade Round through the WTO;
- Secondly, restoring confidence in - and building momentum back into - the APEC process, by showing its relevance to regional players large and small, and to the structure of global trade in a new century; and
- Thirdly, re-invigorating the links between industry and trade policy.

I now deal with these in detail:

For some considerable time now, a Millennium Round of trade liberalisation has been the WTO's greatest promise both to Australia and the global economy in general.

A recent government report showed that a worldwide 50% cut in protection would produce an \$A 600 billion annual increase in global wealth - \$135 billion in agriculture; \$90 billion in manufacturing; and \$375 billion in services. The Uruguay Round itself produced global benefits of \$A 300 billion per annum. Australia would stand to benefit by up to \$A 7.5 billion per annum, with our agricultural producers and depressed rural communities first in line.

But what chance has that promise of being delivered? I can tell you one thing that long experience in government gives you - it gives you a sense for when big international achievements are afoot. There was a real sense of activity and optimism leading up to Bogor and the endgame of the Uruguay Round in 1994 - the diplomatic activity was frenetic, the momentum and interest of all players was there.

Similarly, you could sense it if there was something big around the corner for the Millennium Round. But the fact is, the feeling isn't there. I hope I am surprised later this year, but I fear that I won't be.

And I note that I am not the only one. Graham Blight, former President of the National Farmers' Federation, and currently a government-funded roving ambassador for the farm sector said recently that the government was not giving preparations for forthcoming global trade negotiations sufficient priority or resources. Mr Blight said that preparations for the WTO talks were a "national project", and that the Prime Minister had to put his stamp on it. He also said, and I quote:

*At the last round of global trade talks, we had the best intellectual argument. Australia is not doing that type of work at the moment.*

1999 was supposed to be the year for a specialist agriculture round. Australia was a prime mover in agricultural trade reform in the Uruguay Round as part

of the Cairns Group. That kind of activism is nowhere to be seen at the moment.

Instead, the organisation is bogged down over the choice of the next Director-General. The deadlock between New Zealand's Mike Moore and Thailand's Supachai Panitchpakdi must be resolved, and quickly. In Labor's view, either candidate would do a good job for Australia. Both are from Cairns Group countries. Both support agricultural trade liberalisation. The problem for us is not which candidate is chosen, but ensuring that one of them gets the job, and soon.

What really matters is that this government gets off the spectator benches, and becomes a player in the WTO. Progress towards a Millennium Round will not be achieved merely by calling for it. The Seattle WTO meeting begins on November 30.

A political strategy should be underway to ensure those WTO negotiations are initiated and that they are broadly-based, with fixed timelines and end-dates.

Australia's goals for the Millennium Round must be ambitious, including significant reductions in agricultural and manufacturing protection, as well as extensive liberalisation of trade in services.

And our proper role is not to hide behind any other country's apron. Active international trade diplomacy is quite rightly the province of middle powers such as Australia, because we do not attract the same level of suspicion as a major power pushing the same agenda. There is no question that US leadership will be decisive, but this is no substitute - indeed, it is all the more reason - for redoubled Australian activism.

Another crucial part of this agenda must be supporting China's entry into the WTO. The world is closer to achieving this goal in my view than we have been at any time in the last 13 years. Yet it remains elusive. And it has not been helped by the recent ripples across the Pacific caused by the Cox Report into espionage, and the bombing of China's Embassy in Belgrade.

In my view, this is the essential political logic behind China's WTO accession - it will help insulate the US-China relationship from the hot and cold winds of US politics, and help place the trade issues in the context in which they deserve to be examined - the rules-based system of the WTO. If we look beyond the immediate tensions, we see a Chinese leadership more amenable than ever, not least in the person of Zhu Rhongji. This is a reason for optimism, but not for complacency. We must not be in the business of weakening the reformers' hand.

With Australia standing to benefit by as much as \$10 billion a year from China's entry to the WTO, we have powerful reasons to put ourselves at the vanguard of efforts to achieve this goal. One concrete proposal would be for Australia to push within APEC to develop a "friends of accession" group to build the push for China's entry into the WTO.

I believe this group should be established at the APEC Trade Ministers' meeting at the end of June and should include all APEC members. Australia should lead it, and offer diplomatic resources for the group's operations. The aim should be for the group to report to the APEC Leaders' meeting in September, leaving Leaders just under 2 months to lobby for China's accession at the next WTO meeting, scheduled for the end of November.

This brings me to APEC proper. APEC is one of Australia's most significant diplomatic achievements, but no dispassionate observer could disagree that it is losing momentum.

The November 1996 APEC meeting agreed to advance towards the Bogor goals of free trade by pursuing a program of Early Voluntary Sectoral Liberalisation (or EVSL), identifying key sectors where members were prepared to proceed more rapidly in reducing protection. At the 1997 meeting, APEC members identified 15 sectors in which EVSL would proceed, yet none of Australia's priorities were addressed sufficiently in these sectors. And at the 1998 meeting, the EVSL proposals failed to receive endorsement and were referred to the WTO.

This means we have been marking time in APEC for 3 years now.

Australia used to be the "point-man" for APEC - no-one plays that role today. Leaders attend summits to announce worthwhile outcomes and to inject political horsepower for the next phase. Their role is indispensable. But these outcomes aren't invented on the spot as if by magic - they are pulled together by hard work in the year leading up to the big meeting. Australia used to do much of this heavy lifting - no-one does it now.

A loss of momentum puts in jeopardy APEC's greatest achievement - the Bogor Declaration of free trade by 2010/2020. We need to remind ourselves that signatories to the Bogor Declaration include the largest economy in the world, the United States, the second largest, Japan, and the emerging giant China - importantly also including Taiwan in the same organisation. This is by any measure a powerful commitment to global free trade.

The key task for Australian trade diplomacy now is to ensure that commitments already given are met. I do not resile from the fact that this requirement begins at home. Australia does not repudiate agreements it has signed. A future Labor government will also seek to leverage that Bogor commitment more successfully than has been the case of late - meaning that we ensure through our diplomacy that our APEC partners move forward at a comparable pace.

We are now legislating the further cut in tariffs for textiles and cars after 2005. There seems to be an assumption that Bogor will without further effort deliver cuts in protection among our trading partners. I don't doubt the sincerity of the commitments given, but we shouldn't take future cuts for granted, particularly if protectionist sentiments are allowed to flourish and become entrenched in our region and globally.

There needs to be a clear strategy for achieving Bogor on time. For this government not to start pushing this issue through APEC with our trading partners would be a betrayal of our industries and workers. In addition to doing this, it is time that we recognised that together the APEC member economies constitute over half of the population and GDP of the WTO.

Efforts to develop a post-Bogor strategy have - frankly - failed. Instead of the EVSL process, what APEC Leaders should be agreeing to is to make APEC's long term targets the global targets for the Millennium Round.

Let me state very clearly that reference to the WTO must not become an excuse for foot-dragging in APEC. APEC needs a twin-track of re-doubled commitment to Bogor internally, with a view to fusing this with a WTO track.

The cost of not achieving WTO commitment to Bogor goals is only too obvious when you think about it: Under WTO rules, all cuts in protection must be offered to all States in the WTO, unless they were negotiated as part of a free trade bloc, of which APEC is not one. In other words, if global free trade does not progress at the same rate as APEC countries, by 2010 developed APEC members will have lowered their protection to negligible levels, with no reciprocal requirement upon the European Union to do so.

It is time for APEC members and in particular Australia to be pointing the benefits of global trade reform out to the Europeans.

Global trade liberalisation coincides nicely with the EU's own interest in scaling back the enormous expense of the Common Agricultural Policy, or CAP. It should not have escaped European attention that the cost of admitting countries like Hungary and Poland to an unreformed CAP will be enormous, indeed German Chancellor Schroeder has already shown he understands this, as my colleague Peter Cook pointed out in a recent article.

A recent OECD study showed that Australia's producer subsidies as a percentage of farm income were 7% in 1998. That compares to the US at 22%, the EU at 45%, and Japan at a stunning 63%. We have strong credentials to be pushing this case.

A key agenda item for the next APEC meeting must be to go beyond the EVSL process and forge an agreement for APEC members to act together in the WTO round to push forward the goals of the Bogor Declaration.

The task is to develop a momentum for liberalisation at September's APEC meeting that can be carried forward into the WTO meeting in Seattle at the end of November.

Another priority area for APEC is strengthening markets and improving the environment for private enterprise to develop and operate in the Asia-Pacific region.

The Asian economic crisis showed that economies in the region need better financial and regulatory frameworks to operate effectively. The source of the region's financial problems arose in the main from inadequate financial

systems - poor corporate governance, poor prudential regulation and inadequate transparency.

In government, Labor of course undertook significant prudential and regulatory financial reforms which strengthened our domestic financial sector and gave it a stability not seen in the rest of the region during the recent crisis.

These reforms have earned Australia a credibility in arguing the need for reform of the international financial architecture - particularly in the APEC context.

Labor believes that APEC Finance Ministers should play almost as central a role as Trade Ministers have hitherto, working on issues such as economic policy coordination, increased financial sector transparency and supervision, and improved corporate governance.

I believe a key part of the APEC agenda must also be assisting the emergence of the non-State sector, particularly in China, but also elsewhere within APEC.

Drawing on the combined expertise of APEC member nations, there is scope to provide assistance in such areas as corporate law reform; developing accounting and auditing standards and practices; competition policy; and legal and regulatory mechanisms.

When in government, Labor initiated APEC's trade facilitation activities. It is time to restore to them the focus they deserve.

Trade facilitation is a vital part of the architecture supporting global trade liberalisation. It focuses on reducing the transaction costs of doing business across borders via measures such as customs harmonisation; better processing of business visas; movement towards 'paperless trading' in the region; mutual recognition of product standards; and simplifying and standardising intellectual property regimes.

There are a number of other excellent APEC-specific initiatives which have been developed by my Shadow Minister for Trade, Peter Cook. On Monday morning, he will launch a discussion paper on the future of APEC<sup>1</sup>. I commend it to all of you.

Finally, we must understand the central role played in trade policy by industry policy. While the benefits of reducing trade barriers are often widely dispersed across the economy in the form of lower prices, technology transfer and stimulus to the jobs of the future, the losers from economic reform are more often than not concentrated and highly visible.

It is simply not politically credible - it is simply naïve - to suggest that if the Australian people see trade liberalisation closing factories, destroying jobs, and impoverishing entire communities, they will hold to a rosy view of the opportunities of an open Australia.

For the social contract underpinning our economic globalisation to remain in good repair, we need a government with a demonstrated commitment to fairness.

Now in my view, this does not mean government stepping in with long-term subsidies to uncompetitive industries or other such policy prescriptions. In any case, WTO rules limit the extent to which governments can intervene directly in support of exports.

But there is a role for general measures across the economy targeted at the key drivers of growth; and the cooperative development of strategic assistance to build internationally competitive industries. One example is the Export Market Development Grants scheme, set up by Labor, but suffering under this government: In 1997, the Coalition gutted the EMDG scheme, and introduced onerous new rules for grant applicants.

The results are now there for all to see:

- Total grants down from \$213 million to \$138 million - a fall of 35%;
- Total export earnings of grant recipients down from \$6.4 billion to \$4.9 billion - a fall of 23%; and
- 17,000 fewer Australian jobs - on the government's own figures.

And all this in just one year.

The benefits of trade liberalisation will only flow through if we maintain a strong, competitive and innovative industrial base to seize the opportunities and a highly-skilled, productive workforce.

A simple economic fact, you might think, but too often the advocates of free trade are strong on arguments for the benefits of openness, and weak on the design of policies to prevent the costs falling on particular groups. What governments need to do better is to ensure that social policy - and particularly education, labour market programs and social security payments - are designed to help workers make the transition from an industry that is declining to industries that are growing.

As noted trade economist Dani Rodrik has said,

*It is not whether you globalise that matters, it is how you globalise. The world market is a source of disruption and upheaval as much as it is an opportunity for profit and economic growth. Without the complementary institutions at home - in the areas of governance, ... social insurance, and of course education - one gets too much of the former and too little of the latter.*

In other words, the policies for a fair society in the future are also the policies for a competitive economy.

Success in the global economy of the future will not be driven solely by unit labour costs, but by investment, technology, education and training. I don't need to tell you that the government's determination to spend \$20 billion over the next 3 years in a failing attempt to compensate Australians for an old-

fashioned European value-added tax has seriously crowded out decent public investment in those measures which will build a clever country.

In conclusion, the task before us as a nation is to build the consensus for an open Australia, an Australia engaged with the world to its benefit and the benefit of jobs and living standards at home.

But perhaps the key message I want to leave you with here today, is the need for fairness.

We cannot compartmentalise our success as a nation in the next century. The success of this or that individual - or this or that industry - simply will not endure if it comes at the price, in the public mind, of failure elsewhere.

These times demand a government with intelligence and a government with compassion, not a government as night-watchman. But the night watchman is all we will get from this government.

What we need is a government committed to building a knowledge-based society, to extract the full dividend from our global engagement for all Australians. Only that commitment will deliver Australia the jobs, and the living standards a truly great country deserves.

And that is the commitment Labor will deliver through our policy review and the directions I have outlined to you today. Thank you.

---

The Australian APEC Study Centre thanks

**Toyota Australia**

for supporting the

**Monash APEC Lecture**