

Japan is the host for the next APEC ministerial and summit meetings, scheduled for Osaka November 11-19, 1995. In this JPRI Working Paper, we print an Australian perspective on the Asia-Pacific Economic Cooperation forum. APEC began as an Australian initiative (even if the possibility remains that both it and Malaysian Prime Minister Mahathir's East Asian Economic Caucus were actually Japanese trial balloons oriented to different post-Cold War patterns of development). The Australian perspective also points up in a particularly acute way the ambiguities of APEC that influence both Japanese and American policy. Perhaps most important, the Australian government's support for APEC reflects Australian interests--e.g., unchecked Japanese access to the American automotive market, since that will keep up Japan's demand for Australian iron ore--that are not necessarily American interests. Both Japan and China revealed at the last APEC summit at Bogor, Indonesia, major doubts about the American enthusiasm for "free trade" in the Pacific some twenty-five years from now. This Australian analysis of APEC is a timely contribution to what will remain the major subject in post-Cold War international relations for years to come.

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APEC--Australia's Pragmatic Asia Policy?
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The end of the Cold War and the rise of a potent East Asian capitalism has ended an era of lethargy for Australian trade and foreign policy. For the second time this century, Canberra's policy-makers are showing signs of uneasiness about the economic survival of Australia as a small, basically European-oriented power in Asia. In the 1930s they were beset by doubts over the capacity of Britain to defend its Asian empire; in the 1990s they are beginning to doubt whether the United States can adapt to the post-Cold War situation in the Asia-Pacific region and continue its stabilizing role. Out of this malaise comes Australia's strident advocacy of Asia Pacific Economic Cooperation (APEC).

For Prime Minister Paul Keating, APEC is a model for the post-Cold War world that rivals in strategic design the Bretton Woods arrangements that created the IMF and the World Bank after World War II. "This Government chose the path of shaping the future for ourselves and the region," the PM told Parliament after the Bogor meeting in November, 1994. "Australia proposed APEC. And we worked with other regional countries like Korea to develop it." The ostensible lure is prosperity: more than 200,000 jobs will be created, with an expected 27% increase in exports and growth in real output

of 3.8%. The expected income gain from GATT--A\$100 billion--would be tripled by APEC.

The Bogor Declaration committed APEC's 18 nations to free trade and investment by the year 2020, with the more advanced economies reaching that target by 2010. APEC members agreed to a "standstill" on levels of protection and to improve investment through harmonization of customs, standards, and regulations. The creation of a dispute-settling body was also discussed, and the Sixth Ministerial Meeting immediately preceding Bogor also agreed on the desirability of a set of non-binding investment principles for the region, an idea first proposed by Prime Minister Keating in Seattle in 1993.

In the Australian media, the Bogor Declaration was interpreted basically as an economic agreement between enlightened, business-seeking nations conducting their affairs on the basis of free market economics. No doubts were voiced over the economic effects of free trade on a vulnerable Australian economy whose main export income only recently derived from raw materials and whose manufacturing industries must compete with those of low-wage nations. Nor did the Australian media evince any sensitivity to the idea that APEC could be utilized in different ways by its more powerful member nations, particularly the U.S. and Japan. More important, little mention was made of the fact that for Australia APEC is also a national security policy, albeit a subdued and unromantic one, with potentially historic implications for its culture and politics.

APEC has a dual function for the Labor Government. Access to the economies of the Asia Pacific region is supposed to produce growth in Australia's export industries, better investment outlets for Australia-based corporations, and sharper incentives for efficiency in Australia's labor market and domestic industries. APEC is seen as completing the program of market deregulation begun in 1983, typically summarized in the phrase "economic rationalism"--the body of free-market thought now entrenched in Canberra's bureaucracy and political circles.

In addition, the dialogue and cooperation involved in implementing APEC is thought to reduce tensions between trade rivals, create trust between culturally disparate elites and possibly forestall a strategic disaster. China, the U.S., and Japan are obvious contenders here, but the principle applies to minimizing friction between any of the APEC nations. In defense parlance, APEC is a civilian "confidence and security building measure." It exists in conjunction with the ASEAN Regional Forum's more explicit security agenda. Nations will be peaceful if they are prosperous, is the geopolitical thinking behind APEC.

However, confidence that an Asia Pacific liberal order will deliver prosperity and security to Australia is not completely justified and somewhat overstated. This is not because the search for export growth or regional dialogue is an unfruitful policy. Rather, Australia's deregulated system of economic management and international trade suits neither its economic objectives in Asia nor the pursuit of its national interest. Economic competition against the "engine room" of APEC--the Four Tigers (Hong Kong, Singapore, Taiwan, and South Korea), Japan, and China--requires that the state take a more active role in

encouraging the very export industries it wants to flourish and in shifting the economy away from its long-term status as a raw materials supplier.

As a security policy, APEC depends on the common interests and cooperation of its members. Although free dialogue is a beginning, it is limited as a means of achieving the complex ends of foreign policy. The Australian government remains committed to the U.S. alliance but knows that the future of America's relations with Japan is unpredictable. An Asia Pacific region without the U.S. nuclear umbrella and dominated by a revived Japan or China requires more than the equivalent of an "Asian GATT." Such organizations inevitably fall under the sway of their big power members.

Meanwhile, little in concrete terms has been formally adopted by APEC members, despite the appearance of agreement over trade liberalization. Undoubtedly, APEC has become more of an institution since November 1989, when its First Ministerial Meeting was held in Canberra. It now has a full-time secretariat in Singapore, holds yearly Ministerial and Leaders' meetings, debates specific policy issues through permanent committees, and receives weighty reports from its Eminent Persons Group and the Pacific Business Forum. As well, its membership has expanded to include the world's largest economies, representing over 46% of the world's exports and 53% of world GDP.

Despite these changes, the general impression persists that APEC's development remains inchoate and its statements rhetorical. Will Japan or the U.S. dominate? Will the Malaysian Prime Minister's East Asian Economic Caucus succeed? Why is Australia taking such an activist role? Is APEC a subtle challenge to the managed capitalism of East Asia? Its future directions seem murky.

National motivations behind the support for APEC are more illuminating. From the perspective of the Australian Government the economic purpose of APEC is clear. It will retain access for Australian exporters to the markets of Asia and the U.S.; it will also ensure the U.S. remains an export market for Japan and so maintain Japanese demand for Australian coal and iron ore.

"There is one thing which we know will without doubt reduce all our problems, and that is stronger and stronger trade," argued Keating in 1993. "The global rules of GATT will always be the foundations of world trade, but we believe we can improve upon global benchmarks within the Asia-Pacific region. Because our Asian markets are growing faster than any other, trade with them allows us to grow faster than our OECD partners."

APEC symbolizes the direction of Government policy over the past ten years, which has been to open up the Australian economy to international market forces and "enmesh" it with the Asian region. Beginning in 1983, Hawke and Keating (then the Treasurer) set about to change the social-democratic orientation of the Australian Labor Party. Floating the Australian dollar, deregulating the banking sector, privatization and tariff reduction turned around one hundred years of state thinking on economics and state involvement in the economy. As Hawke puts it in his memoirs, "We needed to unshackle the Australian economy, to modernize it and to internationalize it. To do this we needed to break Labor's

traditional and residual opposition to free market economics.” To this end, Hawke and Keating have promoted hard the virtues of lower tariffs and free trade and the evils of protection. By the year 2000, Australia’s average trade-weighted tariff will be about 2.9%.

At the center of the Labor Party’s current economic approach to Asia are the ideas of Professor Ross Garnaut, a former ambassador to China and author of *Australia and the North East Asian Ascendancy* (1989), a virtual guidebook for the Government to the sources of East Asian prosperity. Garnaut argues that as a middle-rank power in Asia, Australia is unable to really play the game of power politics. Instead, he advocates a coalition-based approach to gathering support for trade liberalization and facilitation, one based on the self-interest of other smaller powers and requiring active involvement and cooperation in the region. Garnaut believes the secret of the East Asian economies is that they export for the international market. APEC will thus help Australia’s exporters by opening markets and also improve the performance of the importing countries.

The initial rationale in Canberra for enmeshing itself with Asia was the fear of being excluded from a regional trade agreement, such as a Yen bloc, as well as from the European Community and a Dollar bloc in the Americas. The creation of NAFTA added to Australia’s fear. “We might have seen the growth of a self-confident but inward-looking Asian grouping, building on East Asian trade and investment flows and excluding Australia,” Keating told Parliament last year.

APEC’s role as a mediator of economic growth between trade rivals was given greater prominence after the success of the Uruguay Round of GATT and the unlikelihood that three world trade blocs would develop. By advocating a regional plan that could be justified using traditional trade theory, Canberra hoped to tap the region’s growth and promote stability between Japan and the U.S.

Throughout the 1980s, Canberra became increasingly concerned about defense policy. The fallout of events after the Cold War, the use of new Asian wealth for arms purchases, the possibility that Japan would go it alone in defense and China’s stupendous growth rates were watched and worried about incessantly. Isolation from its allies and overseas markets was Australia’s underlying strategic fear.

One of the first responses to these concerns was the Dobb Report of the mid-1980s, which outlined a more self-reliant Australian defense policy based around “Fortress Australia” and an independent combat capability. Australia would no longer project power into Asia—a policy symbolized by the replacement of aircraft carriers with submarines. The 1987 Defense White Paper followed Dobb’s report, bringing about a huge reorganization of Australia’s military services and a big increase in defense spending. The latest 1994 Defense White Paper, *Defending Australia*, rearranges nothing strategically.

What replaced forward defense was a new role for regional cooperation on economic affairs and a greater reliance on the Indonesian archipelago as a “shield” for the Australian continent. Before travelling to Bogor last year, Prime Minister Keating confirmed the role of APEC in this context. “APEC locks in U.S. economic and

commercial interest in the region, which in turn helps to ensure U.S. strategic engagement. It provides a framework to help contain or manage competition between China, Japan, and the United States.”

For Australia, the strategic issues center around the likely responses of Japan to a U.S. withdrawal from the region and China’s future status as an economic superpower equipped with nuclear weapons. Without U.S. protection, would Japan become a nuclear power to match China’s arsenal? And if this set off a regional arms race would that pressure Australia to change its “force structure?” Which nation would Australia support, if any?

During the second Australian-American Leadership dialogue last year, the Australian government afforded a brief insight into its security agenda for APEC. Former Defense Minister and now Minister for Finance, Kim Beazley, told ex-officials from the Bush administration that: “Our technological leadership in the region will be lost as time goes by. It brings onto the Australian agenda a number of questions which we would want to delay considering for as long as possible, which would go to the structure of our armed forces. They are not necessary to adjust if the U.S. continues to play a stabilizing role.”

But the Australian government expects even more out of APEC than access to Asian markets and the maintenance of U.S. forces in the region, or even a greater dialogue with smaller regional powers. Its singular aim is to encourage Japan to accept a role of leadership in East Asia, both economically and politically. Although current U.S. policy toward Asia is to seek greater access to markets, and engage in what President Clinton calls a multilateral security dialogue, the days of Asia looking to the U.S. for protection are waning. Massive U.S. budget and trade deficits and the demise of communism make big overseas commitments problematic. Moreover, the Asian Pacific region is in flux both economically and because of the rise of small and large powers.

Australia’s 1994 Defense White Paper clearly singles out China over the next 15 years as a rising power and a possible force for regional destabilization. “Over the next decade, China is likely to be the most powerful new influence on the strategic affairs of our wider region,” argues the White Paper. China’s enormous size, its still communist proclivities, its intransigence on trade issues, as well as its lack of a history of cooperation with the West, and its nuclear status are all factors. The tension between a growing market economy and an (as yet) unreformed leadership could lead to internal problems relating to China’s political direction and stability. By trying to place Japan in APEC’s leadership role, the Australians are hoping to mitigate the impact of China’s growing power.

At the same time, the reason why Prime Minister Keating can talk openly about trying to keep the Americans strategically involved in Asia, but not the Japanese, is political. Neither the Australian public nor the nations in Asia (except, possibly, Malaysia) feel comfortable with the idea of a Japanese “Co-Prosperty Sphere.” Under the guise of an economic program to benefit every trading economy, and one acceptable to a public looking only at the fanfare over “trade liberalization and facilitation,” a system of economic and political relations can be established to stabilize the region. That APEC

ideals seem utopian, distant, and even less than necessary is, perhaps, beside the point for policy-makers so long as a degree of leadership is adopted by Japan.

Such leadership requires money and a commitment to opening up the Japanese economy to the consumer products of East Asia and Australia, thereby creating a stake in economic cooperation for both sides. It also requires a desire on the part of Japan to understand other nations in the region beyond their economic usefulness. Once Japan becomes dependent on these economies for its imports, it is thought, it will feel more committed to a wider policy of involvement. Japan's initiative to create the ASEAN Regional Forum is the type of activity Australia (and the U.S.) has in mind. Helping to fund nuclear reactors for the (North) Korean Energy Development Organization is another. During Prime Minister Murayama's recent visit to Washington, President Clinton told him, "We're confident that during its chairmanship of APEC Japan will show the leadership necessary to chart the course and fulfill the goals of the agreements."

U.S. policy has been slow to embrace the idea of APEC, mainly because of its preference for tackling bilateral issues with Japan and China, and the uncertainties associated with the end of the Cold War. After all, APEC advocates the very same policies that so-called managed trade was designed to achieve. However, bypassing APEC would not only look bad for the U.S., but would represent a missed opportunity for leverage over the European Community and Japan. This point sunk in after Hosokawa's February 1994 visit to Washington and the breakdown of the Framework Talks. Pressure on the Japanese can be increased by using an institution like APEC--a fact the Japanese are aware of in the lead-up to the Osaka Leaders' Meeting this year.

Big differences exist between the Australian and American approaches to APEC. Australia is hedging its bets in Asia between Japan and the U.S. It hopes American strategic influence continues, that the U.S.-Japan Security Treaty remains and that APEC will facilitate this. But if U.S. influence wanes, Australia wants Japan to help out regionally within the APEC framework. The U.S. hopes to pressure both Japan and China, gain real trade advantages through investment laws, and generate a peaceful and prosperous *modus vivendi* in the Asia Pacific region. At present it sees an increased leadership role for Japan as desirable but controlled through either APEC or the ASEAN Regional Forum.

Perhaps these differences explain why the U.S. was initially excluded from the original idea of APEC in 1989. Hawke denies that this was his intention when he first raised the idea in South Korea, although America's export enhancement program were (and still are) causing Australia problems. That Australia would have been prepared to join a Yen Bloc if GATT had failed--and presumably still is, if U.S. power in Asia declines--seems evident from the statements of Richard Woolcott, an influential former ambassador to Indonesia: "If we were pushed to make this horrible choice by facts quite beyond our control, then given the balance of our economic statistics, we would have no choice but to go into the Yen Bloc."

If APEC as a security policy shows up the vulnerability of Australia, the possible economic effect of APEC only reinforces this image. The economic gamble is to create export industries that can sell to Asia as well as supply the domestic market efficiently. Like the U.S., the Australian economy has serious current account problems, though not with Japan. It is assumed that the creation of export opportunities in Asia will generate business optimism in Australia and that imports will not flood in. Behind this assumption lies the belief that “microeconomic” market adjustments will induce investor confidence and that a laissez faire approach to industrial relations are the keys to efficiency.

However, with regard to the automobile industry, lowering tariffs on imported cars before less-developed APEC nations are required to do so could wipe out the Australian industry, pure and simple. Doubts about APEC were even voiced recently by a top Toyota official in Australia, who said “A time span of more than a year out already puts at some risk the long-term planning for industries such as ours. There is a strong argument that Australia should not reform its own trading terms at a rate faster than that of Asia.”

What applies to the car industry could be equally true of all of Australia’s domestic manufacturing industries: steel, electronics, agricultural machinery, auto-parts suppliers, textiles, clothing, and footwear. Unlike Japan, where MITI is apparently looking at the sectoral impact of APEC policies, Canberra has not undertaken, let alone completed, any serious study of the impact of trade liberalization. A top ministerial adviser told me the reason for this neglect was that tariffs are already so low and falling. (Prime Minister Keating has promised an ad hoc cabinet committee to look into the sectoral impact.) For devotees of comparative advantage and neoclassical textbooks, an East Asian region with a clear division of labor and borderless trade may seem desirable. But from the perspective of Australia, the government should use more imaginative methods to help local industry compete with the rest of Asia. This may mean having our own position on issues at APEC Leaders’ Meetings, one that integrates security and cultural concerns with an inventive economic policy to protect Australia’s domestic economy.

Emphasis by Prime Minister Keating on the political effects of regional contact reflects the flexibility that has kept the Labor Party in power since 1983. APEC as a foreign policy is Australian pragmatism writ large and internationalized. Yet the government has adopted free trade as a definition of Australian national interest in a region with little regard for either free trade or the pieties of liberalism in politics or philosophy. Unlike the U.S., Australia cannot dominate its part of the world through sheer economic size or population. A strategic approach needs to be formulated that carefully links our culture and political system to the economic management that underpins it. Unless APEC succeeds in radically changing all techniques of economic management in East Asia-- which seems unlikely--“open regionalism” will create problems for Australian industry and society.

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