

**PRESENT AT THE CREATION OF THE ASIA-PACIFIC ECONOMIC COMMUNITY
ADDRESS BY THE AUSTRALIAN PRIME MINISTER, THE HON P J KEATING MP
WORLD AFFAIRS COUNCIL
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I am in Orange County taking advantage of your kind invitation to me to speak because I am on my way to Seattle to attend a meeting about which I can tell you little.

Mostly, when political leaders meet, our officials and diplomats - from the best of motives - are anxious that the soil is well tilled and the crop planted and fertilised and the political leaders are allowed near only when the harvest is ripe for picking.

This time, President Clinton has organised a break-out.

Leaders of the APEC economies will be left in a room for a day, without officials, to discuss with each other visions for their own countries and for the region into the 21st century.

I'm sure you are by now beginning to become familiar with the acronym APEC, the organisation just four years old, which brings together the nations of North America and the Western Pacific.

It includes all six ASEAN countries in South East Asia, Australia and New Zealand, China, Korea, Japan, Hong Kong, Taiwan, the United States and Canada. Mexico and Papua New Guinea are now expected to join.

This leaders' meeting in Seattle is a remarkable event - you will forgive me if I use the word "unprecedented" once or twice today. The people gathered, representing the most dynamic region in the world, have never met as a group before. Indeed, until a couple of years ago the idea of such a meeting would have been inconceivable.

It has all happened with extraordinary speed. Yet not before time. One hundred years ago a US Secretary of State was proclaiming "the Mediterranean is the ocean of the past; the Atlantic is the ocean of the present and the Pacific is the ocean of the future."

At the turn of the 21st century, I think we can surely say that the Pacific's time has arrived. For it is beyond question that the Asia-Pacific economy is, as a recent analysis concludes, "the dominating fact of modern economic geography, the most striking event in the economic history of the 21st century".

So when President Clinton proposed an informal APEC leaders meeting to be held in Seattle, I was delighted.

It was a sign of the freshness of approach and willingness to embrace a new vision which has characterised President Clinton's agenda.

It was a sign which Australia and other countries in the Western Pacific welcomed, of a new commitment to engage with the region with which the United States does more than half its trade, and where it will always have vital security interests.

So while it is very difficult to predict what will emerge from the Seattle meeting, I am confident that we will look back on it as one of the defining moments in the remarkable history of the Asia-Pacific.

Ladies and Gentlemen

I have called this speech "Present at the Creation of the Asia-Pacific Economic Community", but the title begs the question of what a community is.

Are we talking about an uppercase "C"-style Community, like the familiar European one, complete with an uppercase "E"-style Eurobureaucracy, and aggressive protectionism against the rest of the world?

Let me make it quite clear that I, for one, am not.

But I am talking about something more than a random collection of countries which trade with one another to their mutual benefit.

A community - and I am now using a lowercase "C" - is marked by the comprehension of common, and enduring, interest.

Among the most important of those interests is the maintenance and improvement of the economic conditions which lead to shared prosperity.

A community is marked not necessarily by a monoculture, as Australians and Americans accustomed to diversity readily understand, but by a sympathetic understanding of cultural differences. And, I might say, by an awareness that in cultural diversity there is immense dynamism.

A community is marked by a shared history - and a history in which points of contact and common endeavour are of greater interest than the threads of isolated achievement. And above all, perhaps, a community is distinguished by a shared sense of possibility, shared goals, a shared sense of the future.

That is what APEC can help do. It can develop something like this in the diverse Asia-Pacific region.

And, in fact, in the economic area at least an Asia-Pacific community has already emerged - unplanned, unstructured and unheralded.

In Seattle we will meet in a context which for the first time obliges us to think about common problems and opportunities, and how we may work together to underpin the extraordinary success of the Asia-Pacific economic community.

This economic community is not something governments have brought about by a process of formal agreement like the EEC, NAFTA or our own agreement with our neighbour, New Zealand, the CER.

It is already happening spontaneously, based on a market which for a decade has grown more rapidly than any other in the world, and which is likely to continue to grow at twice the rate of Europe.

The two sides of the Pacific now form an integrated market of two billion people, accounting for half the world's production and nearly half the world's trade.

The economies of North America and the Western Pacific are actually more closely integrated, **without** a regional trade agreement, than are the economies of Europe or North America, **with** a regional trade agreement.

That is, the APEC economies as a group have a higher proportion of trade with each other than do the members of the EC or the members of NAFTA.

Overall, the share of total exports of the APEC group to other members of the group is 66 per cent.

In the EC, the comparable share is 61 per cent. In NAFTA it is 42 per cent.

The European Community was created as a means of integrating the economies of Europe, lowering tariffs and increasing trade.

By contrast the Asia-Pacific economic community is already highly integrated, already successful, and already benefiting from four decades of worldwide reductions in tariff protection.

Yet as the recent report of the APEC Eminent Persons Group pointed out, 20 of the 24 members of the OECD increased their trade protection during the 1980s. And after seven years of difficult and often disheartening negotiations, the conclusion of the Uruguay Round is less than a month away and there is still no assurance whatever that we will get a worthwhile result. For the increasingly open economies of our region, there is no higher economic priority than an open and expanding world trading system.

Our weekend meeting is an occasion to ponder the significance and the implications of what has already begun and what we can imagine it to be.

I have no doubt that there are many things we can do as a group to increase trade and prosperity and to help private business make the most of the region's opportunities.

And I am sure that Americans are thinking along these lines too.

As the Clinton administration says, if the US is to go about expanding its trade, increasing its competitiveness, renewing its global economic force, the Asia-Pacific region is the logical place to look.

Californians are already well aware of the importance of the Western Pacific - it is the market for a little under half of your state's exports.

Since the mid eighties the trend rate of growth of US exports to the Western Pacific has been three times the rate of growth of Western Pacific exports to the United States.

In less than a decade the portion of US exports which go to East Asia has risen towards one third.

Not only is the Western Pacific market growing faster than others for you - it is also buying a higher proportion of the most sophisticated US exports.

Today US exports of elaborately transformed manufactures to the Western Pacific total over \$230 billion, and they continue to grow rapidly.

Ladies and Gentlemen

This process of growth in the Western Pacific market has some very interesting characteristics.

We see, for example, great changes in the structure of production in the region; labour intensive manufacturing industries which first went to Japan, moved to Korea and Taiwan, then to Hong Kong and Singapore, and are now moving to Malaysia and Indonesia and Thailand and the Philippines and on to the awakening industrial giant of China.

As those industries leave countries with rising labour costs, others move in - capital intensive high tech industries or knowledge intensive industries as we see now in Japan, and in Hong Kong, Taiwan, Singapore and Korea, as well as in the United States, Canada and Australia.

The result is rapidly rising living standards through the whole region, which in turn changes the structure of demand and of consumption.

Incomes and wages in Japan may now be as high as they are in the United States, and higher than in Australia.

Income per head in Hong Kong and Singapore is higher than it is in Ireland, and as high in Taiwan as in Greece and Portugal. Wage rates in manufacturing are higher in Taiwan and Korea than they are in Portugal, and higher in Hong Kong than in Mexico. Indonesia now has a middle class larger than the entire populations of some small wealthy countries.

None of this has involved sacrificing the openness and internationalisation of the regional economies, or the trend to more and more liberalised markets.

China's most rapidly growing businesses, for example, are almost always in the private economy.

Malaysia, Indonesia and Thailand have all been growing rapidly in recent years because they have liberalised investment rules, and begun to deregulate their economies.

We are familiar with similar stories in Korea and Hong Kong and Japan.

By any standard this growth is impressive. And we are still in the early stages of the region's development.

China is still only at the beginning of a transition that could well make it the world's second biggest economy sometime early in the new century.

Indonesia, with its 190 million people, vast resources, stable government and enlightened economic policies has enormous potential.

And the countries already achieving middle incomes, like Korea and Singapore, will within a very few years be joining the rich countries.

Ladies and Gentlemen

As I have indicated, the region presents great challenges and great possibilities.

A reasonable estimate of what Western Pacific economies will need to spend over the next decade in ports, roads, bridges and utilities to support their continuing development is at least one trillion US dollars.

McKinsey and Company tell us that the additional power capacity required in Asia by the year 2000 is more than 350 gigawatts, with a capital cost for generation alone exceeding \$US400 billion. And there are similar requirements in hydrocarbons.

Development on this scale will have a dramatic impact on the regional environment. So we will have to use the advances of technology and science to minimise the adverse environmental consequences of rising material living standards.

If these are the challenges, the opportunities are there to build the roads and ports and pipelines; to devise and implement the technologies for a cleaner environment; to seize the opportunities for trade and investment.

And while many of the responses will be local or national, they will be much more effective if we also have a well-designed regional organisation able to help governments remove impediments. APEC can be that organisation.

Ladies and Gentlemen

As I said earlier, the growth that has taken place in the APEC community has been spontaneous growth.

It has had no regional safety net of understandings and agreed processes spread beneath it, no mechanism for encouraging agreement, or for facilitating trade growth by removing impediments.

The more sceptical business people among you may say that, given the growth that has taken place, we obviously don't need a framework for the region. But I am convinced that as time goes by this will be less and less true.

It is already the case that the trade problems between North America and the Western Pacific could sometimes benefit from a discussions among all the parties, rather than bilateral discussions between the United States and the individual countries of East Asia.

We can benefit, too, from the adoption of common or compatible product and occupational standards, simpler and more uniform customs procedures.

Earlier this year I proposed an agenda of discussions along these lines.

Agreement on rules like these would facilitate trade and economic integration.

Some of these discussions are already taking place among APEC officials, and part of the purpose of the Leaders' Meeting is to give them more political weight.

Most of the work being undertaken in APEC is not being successfully done in other international institutions like the GATT. And while it doesn't discriminate against countries outside our group, the benefit will be mostly within. They are what I call "GATT-plus" initiatives.

The area of product and industry standards is particularly important.

A few weeks ago I convened a meeting of business people in our cabinet room to discuss APEC and what business hoped could be achieved within it. And one of the things we talked about was the impediments to exports caused by different product requirements and standards in the fifteen nations of APEC.

In many product areas where large sellers and buyers have long-term relationships, standards and product descriptions are not a problem.

But in other areas - especially in manufactured food exports, in pharmaceuticals and in telecommunications - conflicting standards and requirements are a significant difficulty.

One manufacturer told us that the standards requirements in different markets added 5 to 10 per cent to the initial costs of entering an export market.

The whole problem is made worse because even where we have similar standards, one country's standards authority often doesn't accept the testing results of another's, and the same test has to be replicated right through the region. There is not much sense in that.

Standards are also relevant in the finance industry, which I believe will be one of the great growth markets in the region as increasing wealth creates the demand for sophisticated funds management. Here the problem is not so much too many standards, as not enough.

We need to have clearer legal and administrative structures so that funds can be reliably and prudently managed. Australia is eager to play a part, through our legal firms and particularly through the expertise of our Securities Commission.

Another area we could look at is standards and descriptions in the increasingly internationalised education market. I am told for example that we do not have reliable common descriptions of courses and standards in vocational education in the region - a shortcoming we ought to be able to remedy.

These are issues on which we can engage and produce results. We don't pretend that harmonisation of standards will be easy, or that once achieved it will revolutionise regional trade and welfare.

But it will get us talking, and if we are successful it will make a discernible difference.

Economic research commissioned recently by the Australian Trade Minister, Peter Cook, suggests that the value of removing impediments like conflicting standards in the Asia-Pacific region may be just as great as in Western Europe.

The reforms summarised in Europe 92 were over time expected to yield an increase in European GDP of around 3 per cent.

Our research suggests that a program of standards harmonisation in APEC would yield at least \$US400 billion boost to regional output - an increase bigger than the annual output of all but four of the fifteen APEC economies.

I am convinced that everything that APEC does will be done stronger and more effectively if it draws regional business into its work - I think we should have business people on our standards committees for example, and energy committees and customs committees and so on.

The private sector has created the Asia-Pacific economic community, and private business is best placed to know the impediments which governments should remove.

There may well be other things we can do in coming years.

There is little doubt, for example, that some of the energy needs of the Western Pacific could be most efficiently met through a network of natural gas pipelines that, in the most ambitious form, might extend from the north west of Australia to Japan. But no such network could be imagined, let alone built, without a very high degree of cooperation among governments in the region.

The same goes for connecting up the separate power generation and transmission systems of the Western Pacific - another logical and efficient solution to energy problems, but one which would need a degree of cooperation between governments which we are only likely to develop through APEC.

At some point we may wish to talk about a regional steel agreement, or a regional electronics agreement or a regional food agreement or a regional services agreement.

But on these major trade issues the consensus within the group is that we should await the outcome of the Uruguay Round of GATT and then see what is left over which could be usefully advanced on a regional basis.

If the Uruguay Round fails or the outcome is completely unsatisfactory, perhaps we might think about some kind of regional round which picks up the Geneva agenda and attempts to do for the Asia-Pacific, for half of the world economy, what the GATT will have failed to do for the whole world economy.

Some ideas on these issues were presented by the APEC Eminent Persons Group report chaired by Washington economist Fred Bergsten.

In the longer term, the Eminent Persons Group report calls for free trade in the region - a goal to which Australia heartily subscribes. But just how to get there and by what time is a subject which in my view it is too early to determine.

What really matters now is that for the first time the governments of these rapidly integrating economies are talking about common problems and about their relationship to each other.

Secretary Bentsen has proposed regular meetings of APEC Finance Ministers. I think that is a good idea. Although our economies are different in scale and historical experience, the problems we are facing are increasingly similar. Each of us has much to learn from each other.

Ladies and Gentlemen

As I said at the beginning, for Australia's part, we are already committed to the Asia-Pacific region. During the last decade we have internationalised our economy through financial deregulation and tariff cuts.

Since we began the reforms we have seen our exports trebled, and increase as a proportion of GNP from 13 per cent to 20 per cent.

We have seen manufacturing exports rapidly increase, so that they are now consistently stronger than the rural exports for which we are still better known.

And we have seen the proportion of our exports to East Asia increase from under half of the total towards two thirds. Australia now sends more of its exports to Asia than does Japan.

For us, there is no turning back - just as I believe that for the United States there is now no turning back.

Ladies and Gentlemen

The impact APEC can have goes well beyond its economic potential.

APEC's development will have a lasting strategic impact on the Asia-Pacific region.

I do not mean by this that APEC itself has - or should develop - a political or security dimension. Other forums exist to fill those roles.

But I have no doubt that APEC has the potential to change quite fundamentally the way in which the countries of this part of the world interact with each other and the degree to which they understand each other's interests. And that, I am convinced, will have consequences well beyond the economic field.

The process will be quicker and deeper if, as I hope, this first meeting in Seattle leads to a regular pattern of informal leaders' meetings, with all the opportunities that would open up for closer personal contact and understanding among the leaders of the APEC economies.

By bringing the United States and Japan - the world's two largest economies - and the emerging giant of China into a framework of multilateral economic cooperation, APEC will provide all the countries of Asia and the Pacific with the reassurance that during a period of profound change in the world, this region will continue to be characterised by interdependence and engagement.

Half a century ago a distinguished group of Americans around President Truman were present at the creation of the post war order - an order based on superpower rivalry between the Soviet Union and the United States, on the creation of a united Western Europe, and the rebuilding of Japan and Germany as prosperous, free countries.

Today I believe we are present at the creation of quite another configuration in world affairs - one which succeeds the cold war, which is directed to increasing welfare through economic prosperity, the Asia-Pacific economic community.