

REGIONAL ECONOMIC COOPERATION AND INTEGRATION

P J Keating

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Invited to address a conference in Indonesia on regional economic cooperation, Paul Keating took the opportunity to hammer away at two of his foreign policy themes: the importance of a broadening relationship between Australia and Indonesia, and the value of open regionalism to the East Asian hemisphere. The address ranges across such issues as the 1997 Asian economic crisis, including the damaging role of the IMF, the nature and character of regional bodies such as APEC and ASEAN Plus Three, noting again China's economic growth and the inappropriateness of George W Bush's unilateralism as a sustainable leadership model for world governance.

In so many ways Indonesia is a different country from the one I first visited as Prime Minister in the early 1990s. Democratisation, decentralisation, reform and constitutional change have transformed the political landscape. Economically, the country is still dealing with the consequences of the Asian financial crisis which made life so much harder for millions of ordinary Indonesians.

I know from my own experience how difficult the task of reforming institutions and confronting vested interests can be. So I greatly admire the efforts of those Indonesians who are building a culture of accountability and transparency here.

But underneath the obvious changes in Indonesia, much remains the same. A rich culture, a warm people and a tolerant society. These are what make Indonesia unique and why I am always so happy to come back here.

Well before I became Prime Minister, I told the Australian people that I regarded my country's most underdeveloped major relationship as the one we had with Indonesia, our nearest, largest neighbour.

The Australia–Indonesia relationship had a political and defence dimension to it, but it lacked the depth of trade, economic and financial contacts and the educational, cultural and people-to-people ties that ought to underpin relations between two close neighbours. It lacked what Gareth Evans used to call ballast, the weighting of interests that would keep the ship on a steady keel during a political storm.

So my initial focus was on trying to broaden the relationship. On my first visit here as Prime Minister in 1992, President Soeharto and I agreed to establish a ministerial forum that would engage a range of other departments and agencies—trade, finance, transport, science and so on—in the relationship. I also worked to try to encourage new non-governmental links in trade and investment, education and

culture, including by expanding the teaching of Bahasa Indonesia in Australian schools. I am glad that a lot of this work is still going on.

But the second way in which I wanted to broaden the Australia- Indonesia relationship was by working with Indonesia to tackle some of the wider issues of regional economic cooperation and integration, including APEC. So I am glad to be talking about these matters again today.

Ten years ago, the frozen international landscape of the Cold War was beginning to thaw. After 50 years, this was an unexpected and welcome development. The most important immediate impact on the international environment was to open up opportunities for regional cooperation and integration. Relationships that had been impossible under the Cold War's bipolar structure suddenly showed new potential.

For example, the European Union was able to begin dialogue with the former Communist countries of Eastern Europe. And in this part of the world, ASEAN expanded by bringing in the countries of Indochina. It was also possible for us to build APEC, the first ever regional organisation to include all the countries of East Asia, including China.

At the same time, the globalisation of manufacturing processes and easier capital flows were leading to an economic boom in Asia. The so-called Asian Miracle brought with it a new sense of regional identity and self-confidence.

It was a time when it seemed possible to do new things, to try to remake the world along better lines.

But just as Indonesia has changed over the past five years, so has the environment for regional cooperation. We now live in a very different region.

The most immediate change to the regional environment came with the Asian financial crisis in 1997. Perhaps no-one could have prevented that disaster. It had its roots in an expectation that unsustainable exchange rates would continue indefinitely and in dangerously sloppy lending practices by Western and local banks. But certainly we could have lessened its impact.

In my view—and it is a view I put forcefully to senior US administration and IMF figures at the time and since—this mishandling bore down terribly unfairly on Indonesia.

Of course there were weaknesses in the Indonesian economy that needed to be addressed, just as there were in the other affected countries. But the tragedy is that some of the medicine that the IMF and its allies touted so confidently as a sure-fire remedy, and then force-fed to the patients, turned out to be snake oil. It made their condition even worse.

That whole approach was one of the most significant failures of international public policy over the past 25 years. Its economic and social impact is still being felt.

The crisis changed the dynamics of regional cooperation. It deflated a lot of that regional optimism and generated a new caution about the pace of economic reform. It also increased scepticism about outside advice and gave new voice to economic nationalist sentiments.

The second important way the region has changed over the past five years has been through the impact of China's continuing economic growth. China's GDP grew by 9.7 per cent a year on average between 1989 and 2000 and real urban incomes doubled. It is now the second largest economy in the world by purchasing power parity measurements, and the destination for 85 per cent of all foreign direct investment coming to Asia.

As a result, it has become a much more powerful competitor for export markets. But the growth of domestic demand, and its WTO-mandated commitment to openness, have also made it a more important market and economic partner for its neighbours.

In my mind, there is little doubt that over the course of this century China will become much stronger economically, more powerful strategically and more confident politically.

Ten years ago it might have been possible to talk about economic integration in Asia without China. That is no longer possible.

A third obvious change—this time external to the region—has been the impact of the terrorist attacks in the United States last year.

I don't believe as some commentators claimed that the world was changed utterly by the events of September 11. On the contrary, I think we got to understand the world better. It is not excusing terrorism to see in those events a reminder to us of the divisions that continue to exist globally between a 'contented centre' and the problems on the margins, and the dangers we face if we ignore them.

The attacks did profoundly change one very important thing, however. They gave Americans a new sense of their own vulnerability. As a result, the United States, the world's largest economy and the only military power with global reach, has become more openly unilateralist in its approach to the world.

So how have these developments changed the prospects for regional cooperation and integration in Asia? What should we be looking for in the first decade of the twenty-first century compared with the last decade of the twentieth?

Before talking about regionalism, however, it is necessary to say something about globalisation.

Globalisation has continued to transform Asia. We saw it in the volatile capital movements around the time of the financial crisis and in the continuing direct and immediate links between what happens in the regional economy and the global one. The recent fate of Asian electronics exports is a good example.

Globalisation is not going away. The technological changes that drive it cannot be uninvented, so it continues to transform the way countries interact.

In my view, the challenge for governments is not to try to circumvent globalisation but to harness and direct it in ways that bring its many benefits to ordinary men and women.

But one obvious question is whether, in an age of globalisation, regional cooperation and integration still makes sense.

After all, by making information more easily available and facilitating transactions, globalisation brings closer the ideal of an efficient global market. Indonesian manufacturers can find markets anywhere on earth. Market forces are themselves driving a harmonisation of product standards and regulations, as manufacturers themselves adjust to the needs of their markets.

In a world in which distance is shrinking, perhaps physical closeness no longer matters so much. So do we still need regional arrangements in a world in which sellers and buyers can be linked up instantaneously on the Internet and transactions can be made at the click of a computer mouse?

My answer is yes.

One reason is that while changes in the private sector may be happening automatically, as a result of market forces, the issue for governments is how to deal with the reverse side of the process.

For governments, globalisation raises a range of new and difficult issues: harmonising legislation, protecting taxation revenues, improving corporate governance and accountancy standards. They also have to address increasingly urgent transnational problems like environmental degradation and terrorism.

Markets alone won't resolve these challenges. Nor can they be dealt with by national legislation alone or within the borders of individual states. They require international cooperation; multilateral cooperation.

But existing global organisations are often too large or slow-moving to respond effectively. The sheer scale of the United Nations and other large multilateral bodies can restrict the capacity of smaller countries, especially, to participate effectively in their work, to get any kind of worthwhile result.

Faced with these problems at the global level, tighter, more flexible, regional organisations have been able to fill some of the gaps.

They can address the growing number of issues that are too large for the nation-state to handle and too limited or too urgent for global action. That is the essence of it.

Regional cooperation also has the useful byproduct of strengthening bilateral relations, by increasing the opportunities for contact by political leaders and making that contact easier and less formal.

The European Union, ASEAN and APEC all have political and strategic as well as economic purposes. Economic cooperation is one of the ways they build deeper and more lasting political relationships.

The broadest of the existing regional organisations, of course, is APEC.

I have to admit that I feel less confident about APEC than I did ten years ago. The Asian financial crisis weakened the forum, partly because it did so little during the initial stages. And members have shied away from some of the most politically difficult trade-liberalisation aims.

Just as importantly, the organisation suffered from reckless expansion in numbers to include economies such as Peru and Russia that simply do not have the same interests in the great trans-Pacific flows of trade and capital that bound the original members. The larger the membership of a regional organisation becomes, the harder it is to keep the focus clear.

These failures might not matter so much if it was possible to see among current members any real champions for APEC, leaders prepared to expend energy and political capital to keep the organisation moving forward. But it is hard to identify any. And if regional organisations don't face such internal prodding, they tend to slump back into a state of bureaucratic sleepiness in which the process becomes as important as the outcome.

APEC has some important things in its favour, however. Its Leaders' Meetings have shown themselves time and again to be a useful and practical way of enabling regional heads of government to maintain links and contacts, even at times of stress in bilateral relations. We saw that when President Bush was able to visit Shanghai so soon after the spy plane incident.

And the vital role US markets, investment flows and security policy will continue to play in this region means that a trans-Pacific forum engaging the United States at the highest level about these issues—and which includes Japan and China—will have a continuing vital usefulness for all of us.

But, partly because of its size, APEC can no longer fulfil so easily some of the other community-building functions of regional organisations.

One of the consequences of the financial crisis was to turn the debate about regional integration inwards again, to East Asia.

Financial issues emerged as a more urgent and obvious focus for cooperation. Japan's first proposal in 1997 for an Asian Monetary Fund met opposition from the United States, the IMF and China, but it began a debate which has led to some concrete outcomes.

In May 2000, the new ASEAN Plus Three grouping—which has been another manifestation of the narrower regional focus after the crisis—created a network of regional currency-swap arrangements. The same grouping is trying to regularise meetings of finance and trade officials.

At the subregional level, the oldest and most important of the organisations is, of course, ASEAN. Like APEC, it has had some difficulties in maintaining focus after its expansion to include the countries of Indochina. Its new members are at very different levels of development. Nevertheless it remains important to Southeast Asia's capacity to develop confidently and cohesively.

We have seen a flurry of new proposals for economic cooperation, but not much movement. Various dialogues about free-trade areas are continuing but without sign of early movement.

AFTA—the ASEAN Free Trade Area—has moved haltingly. Proposals for a China–ASEAN free trade agreement within ten years were announced in November 2000 and Japan has also proposed a comprehensive economic initiative with ASEAN which would include free trade. Discussions about a link between AFTA and the Australia New Zealand Closer Economic Relations Trade Agreement have been underway since my government first proposed them in 1995.

I think it is fair to say that it will be some time before we see concrete results from this dialogue. Elements of competition and cooperation continue to balance themselves evenly in the debate about Asian regional economic cooperation. Competition between China and Japan, between Japan and South Korea, between some of the ASEAN countries, between China and the other developing economies remains absolute.

This links into the second of the changes I talked about: China's economic growth.

I believe the world is far better off with a growing and self-confident China than with a weak and uncertain one. But it can be uncomfortable to live next door to a giant. The experience can generate resentment and a feeling of powerlessness on the part of smaller neighbours.

In these circumstances, other Asian countries need to have confidence that their voices will be heard. That they can shape the region as well as belong to it. For these reasons, I think it is vital that China enters the regional and global stage in the context of successful, working regional organisations. I think the signs so far are positive.

The final change I mentioned in the region was the impact of September 11.

The main point I want to make here is the simple one that American unilateralism is simply not a sustainable leadership model for the world.

One lesson we must all learn—not as a result of terrorist attacks, but because it is morally essential—is that the developed world cannot just take the economic benefits of globalisation and ignore the demands from other parts of the globe for a

voice and for representation. Such action will simply store up fiery resentment which will eventually manifest itself in ever more dangerous ways.

A globalised international economy has to mean a more representative international polity. This the United States continually fails to understand. And regional organisations themselves have an important part to play in a more representative international order.

So although there have been disappointments in regional cooperation and integration, we should not give up on the process.

Just as Asia's interests and problems differ from those of other parts of the world, so will the forms and structures of its regional bodies. Compared with Europe, Asian countries are at very different stages of economic development. And the patterns of interaction between, say, North Asia and Southeast Asia, have been less intense than Europe's. As a result, Asia is likely to develop a more variegated regional architecture. Nothing monolithic or highly structured.

Let me end by saying something about Australia and Indonesia, a subject I feel strongly about.

This might not be a fashionable sentiment in either Canberra or Jakarta at present, but I continue to believe firmly that Australia and Indonesia together have a major contribution to make to regional cooperation and integration; indeed, to their own safety, security and development.

We have shown it in the past in two areas in particular. The success of the Cambodia peace settlement and the establishment of APEC Leaders' Meetings both depended critically on close cooperation between our two countries.

This idea lay behind the Agreement on Maintaining Security which we signed in 1996 but which fell victim to domestic politicking during the East Timor troubles.

The agreement provided for Australia and Indonesia to consult regularly about their common security, including adverse challenges to it, and to develop such cooperation as would benefit them and the region.

In other words, we saw the Australia–Indonesia relationship as an integral part of wider regional cooperation. It is a vision well worth remembering today.

If I had one piece of advice for Indonesians, it would be the same advice that I have been offering my friends here for a long time now. Indonesia needs to be energetic and creative about communicating its own realities to the outside world and identifying strategic partnerships that will help them with this. That is one of the reasons this conference is important.

Like China or India or the United States, Indonesia is so large that it can become self-absorbed. Given the challenges the Indonesian people face, that is hardly surprising. But I urge Indonesians to look outwards as well.

Indonesia is at the epicentre of Southeast Asia. The success of regional cooperation and integration in this part of the world will continue to depend vitally on Indonesia's active participation.

President Megawati recently made an important speech in India in which she said that 'the main foundation upon which [Indonesia's] national stability is built' is tolerance.

That is one of the enduring strengths of Indonesian society. And at this particular time, it has never been more important for the international community to understand and appreciate the structure and outlook of the world's most populous Islamic society.