

Chapter V

The Historical Development of Australia-ASEAN Relations: Implications for APEC into the Year 2000

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1. Introduction

The decline in Australia's terms of trade that occurred during the 1970s caused massive current account and budget deficits and burgeoning foreign debt. These developments clearly showed the vulnerability of the Australian economy to changes in the international economic environment.

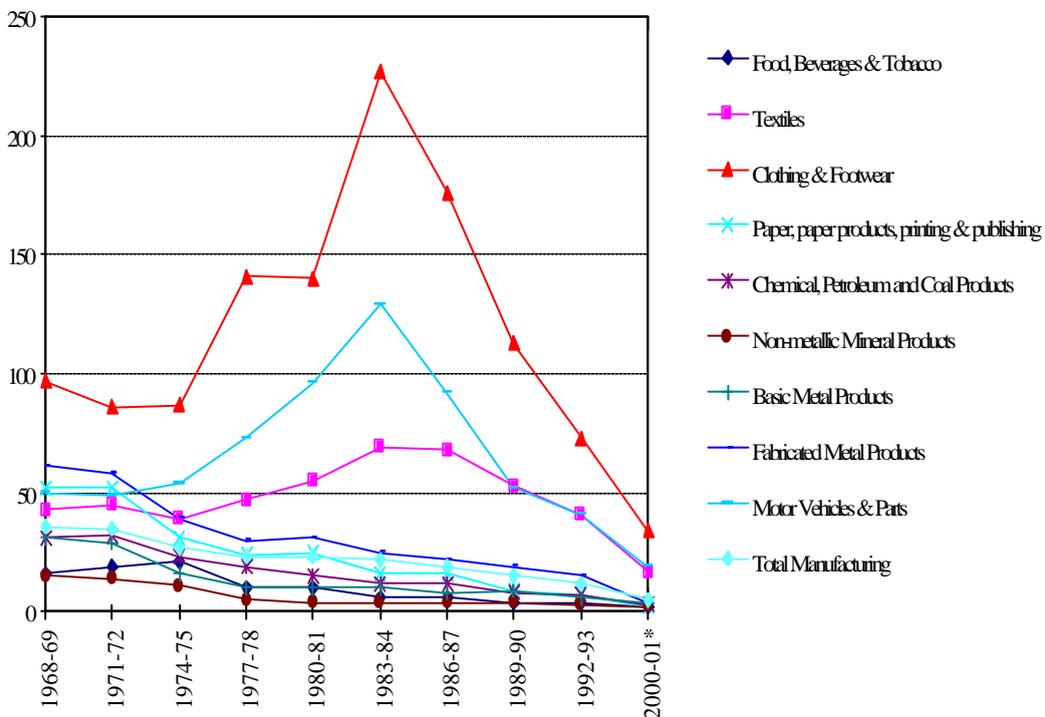
During the postwar period, Australia had mostly enjoyed strong trade growth based on traditional exports of primary products such as wool, foodstuffs, iron ore, coal, bauxite and other commodities, but by the early 1970s the long boom in primary exports had ended. Under this environment of declining commodity prices, the traditional protectionist industry policy of Australia was seen to be incapable of maintaining and improving the living standard of the people (Garnaut 1989: 205). However, the decisive reorientation of Australian economic policy from protectionism to liberalisation and deregulation had to wait until the 1980s, especially after the Australian Labor Party (ALP) gained power in 1983.

The reorientation of Australia's industry policy was a consequence of domestic economic reform aiming for minimal government intervention in the market. In short, from the early 1980s, the Australian government tried to transform the economy from one which was inward-looking, inflexible and specialised in the export of primary products, to an open, market-responsive one with a more diverse pattern of exports (Garnaut 1994: 51).

Triggered directly by another deterioration in the terms of trade at the beginning of the

1980s, the ALP government initiated domestic economic reform. Australia’s reorientation in economic policy was illustrated by the unilateral reduction of levels of protection on manufactured products and active participation in multilateral trade negotiations. Figure 1 shows the trend of average effective rates of assistance (ERAs) for selected manufactured products from the end of the 1960s.

Figure 1: Average Effective Rates of Assistance for Selected Manufacturing and Years, 1968-69 to 2000-01* (%)



*Projection based on 1989-90 base year production.

Source: IC (1995), Tables A6.3 and A6.6.

General ERAs for manufactured products, except for textiles, clothing and footwear (TCF) and passenger motor vehicles and parts (PMV), decreased gradually over the period, though the pace slowed during the period between the end of the 1970s and the beginning of the 1980s. The movement of ERAs for TCF and PMV clearly shows that there have been two distinct periods in the Australian government’s protection policy: from the mid 1970s to the mid 1980s when ERAs for those products rose sharply, and; from the mid 1980s when ERAs declined drastically,

even faster than their previous rise.

As both the Australian government and society have acknowledged the TCF and PMV industries have historically been very important for the economy, mostly due to the employment capacity of these sectors. Nonetheless, drastic reduction of assistance for these industries since the mid 1980s indicated the determination of the ALP, and more recently the Liberal/National coalition, governments to reform and restructure the domestic economy.

Second, the Australian government's attitude towards the General Agreement of Tariffs and Trade (GATT) changed in the 1980s. Though Australia was one of the eight original signatories of the GATT protocol in 1947,¹ its commitment towards GATT and its principles had been less than convincing. Australia was not an active participant of rounds at the trade negotiations under GATT until the Uruguay Round (1986-93) where it committed itself to tariff reduction fully.² The reason why Australia was not interested in the earlier rounds is obvious. Products covered for tariff reduction in those rounds were mainly manufactured products which Australia did not export in meaningful amounts, and there were few prospects of significant increase. On the other hand, agricultural products, for which Australia held considerable comparative advantage, were excluded from the negotiations. After the initiation of policy reorientation, however, Australia needed to secure a favourable international environment, that is a free and open trade and investment regime. It needed to do this to underpin its domestic economic reform and to promote exports of manufactured products, on top of traditional primary products exports. The Uruguay Round became a key priority of Australia's foreign economic policy (DFAT 1988: 21).

Australia's foreign policy behaviour since the 1980s, including the APEC initiative in 1989 and the active involvement since its establishment, should be understood in the context of the reorientation in Australia's economic policy. To promote the reform of the domestic economic

¹ Other original members were the United States, the United Kingdom, France, Canada, Netherlands, Belgium and Luxembourg.

² Before the Tokyo Round (1973-79), Australia did not take part in the rounds of negotiations. Even at the Tokyo Round, Australia disassociated itself from a formula based general tariff reduction which was introduced at the previous Kennedy Round (1964-67) to achieve wider coverage of products for tariff reduction. See Snape (1984: 22) and Corden (1995: 11).

structure, and therefore the nation's trade structure, the East Asian economies (Japan, Asian NIEs, China and the ASEAN countries), which were developing rapidly over the period, became a geographical focus of Australia's foreign economic policy.³ The importance of Japan, as Australia's export destination and import source, had already been vital for more than three decades, and other East Asian economies also became important by the end of the 1980s (Okamoto 1997a: 21-6).

In this chapter, Australia's relations with ASEAN will be examined to analyse why and how Australia has been trying to relate itself closely to the Asia Pacific region. The development of Australia's policy towards ASEAN will be discussed in the context of the overall reorientation of Australia's economic policy, and it will be acknowledged that the gradual but impressive industrialisation of the ASEAN countries overlapped the most crucial period of Australia's economic policy reorientation.

Australia's relations with ASEAN changed dramatically in the 1980s compared with the latter half of the previous decade, a period which was filled with economic disputes. The development of recent Australia-ASEAN relations has clearly showed the changing perception of Australia towards ASEAN and the Asia Pacific region. It will be argued in this chapter that the experiences Australia had in its relations with ASEAN were indicative of the dominant forces in the international environment that had made the Australian government change its foreign policy behaviour in the 1980s. It will be suggested that Australian governments also learned some important lessons on how Australia should act in the region to maximise its interests and that these lessons were utilised in Australian diplomatic initiatives such as the establishment of the Cairns Group⁴ and APEC. It will also be suggested that, even in the current economic crisis in

³ To simply characterise the ALP government's inclination towards East Asia in its external relations, especially after Paul Keating became Prime Minister in December 1991, the term "Asian Engagement" was often used. The "Asian Engagement" of the Keating government also meant reducing emphasis on the traditional relations with the United Kingdom and the United States. For comprehensive overview of the Keating government's Asian engagement, see Cotton and Ravenhill (1997).

⁴ The Cairns Group was formed in 1986 by 14 agricultural exporting countries: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand and Uruguay. South Africa joined the Group in February 1998. The Group successfully lobbied to include agricultural products in the Uruguay Round agenda. Since the conclusion of the Round, the Group has continuously been pushing for fair trade and is now preparing for further multilateral negotiations which will start in 1999 under the WTO framework. The members account for about 20% of world the world's agricultural

some of the East Asian countries, and the mid term prospects for economic recession, the region will remain an important trade and investment partner for Australia for the foreseeable future. Finally, it will be argued that there will be no way back to the old protectionist policy for future Australian governments. Thus, Australia's commitment in promoting a favourable regional economic environment, via APEC or any other means, will continue.

2. Australia's Relations with ASEAN before the 1980s

2-1. The Establishment of ASEAN and Australia's Perception

For the whole period since the end of World War II, Southeast Asia was an important region for Australia. Formerly as parts of the British Empire, and as members of the British Commonwealth since their independence, Malaysia, Singapore and Brunei had special diplomatic relations with Australia. Following the UK decision to withdraw military forces from the east of Suez, the Five Power Defence Arrangement came into existence in 1971 among Australia, New Zealand, the United Kingdom, Malaysia and Singapore. Also, Australia was one of the original members of the Colombo Plan which was the first multilateral economic assistance scheme in the region.⁵

Relations with the Southeast Asian region were important for Australia, however, these relations were based essentially on political/security considerations, rather than an economic one, throughout the postwar period. The fragility of the region in achieving independence after the war, and in building nations since then, had inevitably been brought into the Cold War framework. Under such a situation, successive Australian governments had seen the region essentially as a subject of economic development assistance to build it as a bulwark against communism.

ASEAN was established in 1967, mainly for the purpose of regional stability (peaceful relations among the members as well as the security of the region as a whole) which was thought

exports. See the Department of Foreign Affairs and Trade's WWW homepage (http://www.dfat.gov.au/cairns_group/index.html).

⁵ The Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific was established in 1950. The plan was originally proposed by the British Commonwealth, then widened to a broader framework.

necessary for each member's national development.⁶ It is quite important to note that ASEAN members' common ground was to oppose external interference in, and influence on, domestic affairs. Policy autonomy was crucial for all ASEAN founding members. Communism might have been seen as a direct threat by ASEAN in this regard, but it was not necessarily the only threat. The Australian government, it seems, misunderstood this point. Lim (1981) suggested that there were two distinct stereotypic perceptions of ASEAN in Australia. One was the "Right" stereotype that was characterised by "ASEAN as the bulwark against communism" and "ASEAN as a puppet of the United States and Japan". This perception hardly recognised the will of ASEAN's individual members (especially Indonesia) to avoid intervention from any of the Great Powers. The other stereotype came from the political "Left" that emphasised ASEAN members' underdeveloped economic conditions and argued that these conditions had been caused by a dependence on developed economies and their authoritarian regimes. Thus, according to the "Left" stereotype, the world system and/or authoritarian regimes should change. Lim argued that most Australian individuals and institutions were caught up with one stereotype or the other, and failed to see ASEAN as it was.

In the economic arena, as mentioned earlier, Australia had been protecting domestic industries for a long time.⁷ Successive Australian governments had implemented a policy designed to shelter the domestic manufacturing and services sectors from international competition. By doing so, successive Australian governments had effectively discriminated against more competitive industries such as agriculture and mining. Though opposition against protectionism, mainly from university academics, was heard constantly in the postwar period,⁸ the first moves from within government to reorganise the policy of protection came only in the latter half of 1960s.

In 1967, the Tariff Board (later called the Industries Assistance Commission and now

⁶ All the ASEAN members had hostile experiences with their neighbours by then, such as the dispute over the possession of Sabah and Sarawak among Indonesia, Malaysia and the Philippines, President Sukarno's "Konfrontasi" policy against Malaysia, border dispute between Thailand and Malaysia and Singapore's independence from Malaysia. The leaders of ASEAN resolved that regional hostility should be ended to concentrate on national development. See Okamoto (1995: 11-13)

⁷ For details, see Anderson and Garnaut (1987).

⁸ University professors in economics such as Max Corden, Heinz Arndt, John Crawford, Ross Garnaut, Peter Drysdale, Clive Edwards, Wolfgang Kasper were, among others, vocal for trade liberalisation.

known as the Industry Commission), whose traditional role had been to handle requests from manufacturers for rises in tariffs and to advise government on how far protection for particular products should be increased, began a systematic review of the tariff regime. The Board intended to advise government to reduce tariffs for excessively protected industries as the first step towards tariff reform (Rattigan 1986). Although reform was supported by the primary industry sector, such as wool and mining, and even by some members of the Liberal Party which was in power at the time, the opposition from manufacturers' organisations, some sections of the government (especially the Department of Trade and Industry) and trade unions was vociferous. The Board's attempts towards tariff reform were stopped and the traditional regime remained. This regime was to become a major cause of the poor relations that Australia experienced with ASEAN in the latter half of the 1970s. As the gradual economic development of ASEAN countries made the organisation's labour intensive products competitive by the mid 1970s, interest in relations with Australia became focused on the market access issue.

2-2. The Whitlam Challenge and Its Aftermath, 1973-75

After 23 years in opposition, the ALP, led by Gough Whitlam, won the general election in December 1972. Immediately after the Whitlam government came to power, it implemented a wide ranging policy reform process.

First, it redirected Australia's foreign policy orientation. Less than a month after his government's inception, Whitlam decided to recognise the People's Republic of China. In relations with Southeast Asia, the government fully disengaged from Vietnam, withdrew from the military side of SEATO, and supported the Zone of Peace, Freedom and Neutrality (ZOPFAN) of ASEAN. Moreover, Australia became the first dialogue partner of ASEAN as a single state in 1974 and, in the same year, the ASEAN-Australia Economic Cooperation Program (AAECP) was started to help ASEAN countries develop their economies.⁹ Whitlam even proposed the creation of a regional consultative forum in the region, only to be told by the ASEAN countries

⁹ The AAECP had a wide range of projects including: protein project, food handling project, trade operation project, education project trade promotion project, population project and joint research project. After the general meeting in Kuala Lumpur in 1982, the AAECP was dissolved and its work was incorporated into other groups.

that they were simply not ready.¹⁰ Though this shift in policy by the ALP government was possible because of a prior regional policy change by the United States (the Guam Doctrine in 1969 and diplomatic initiatives to normalise relations with China in the early 1970s), it was a visible change in foreign policy from the previous Liberal/Country Coalition government.¹¹

Second, in July 1973, the Whitlam government slashed overall tariffs by 25%. As the government had been emphasising the importance of the Asia Pacific region, and of diversifying exports markets for Australian products, the 25% across-the-board tariff reduction might be viewed as one of the first steps towards structural reform of the domestic economy. As a matter of fact, however, the main factor for this tariff reduction seems to have been inflationary pressure within the domestic economy.

Accompanying the sharp increase in its terms of trade in the early 1970s (see Figure 2), Australia recorded a large current account surplus in 1972/73. The Whitlam government sought to encourage imports to counter inflation by reducing tariff rates. Nevertheless, the government soon faced serious economic problems. The Australian economy went into decline in the latter half of 1974 as its major trade partners, the United States, Japan and the European Community were pushed into recession by the first oil crisis. The terms of trade dived in 1974 and 1975 (see Figure 2) and earnings from exports suffered massively. The inflation rate rose and the government had to squeeze the money supply. Furthermore, the unemployment rate, that had been less than 2% beforehand, almost hit 5% in 1975 (see Figure 2).

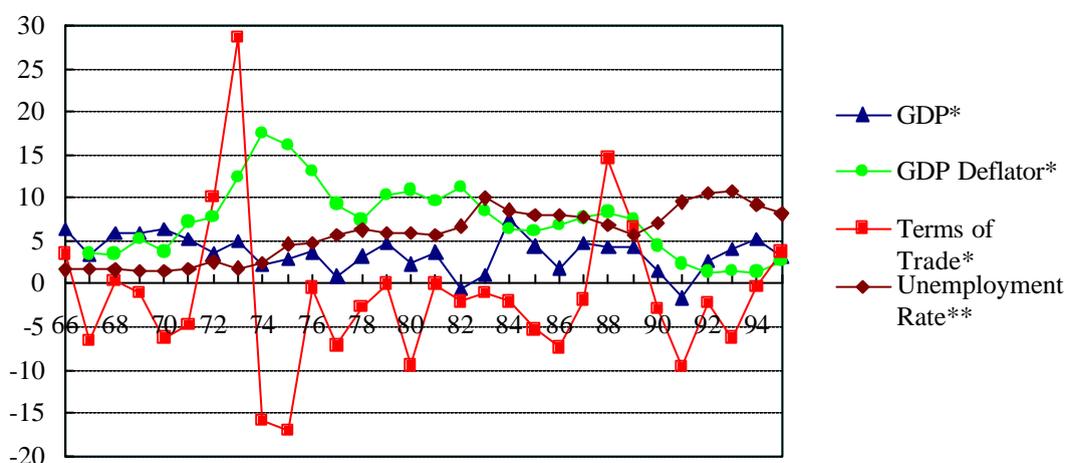
The timing of the Whitlam government's tariff cut worsened the domestic economic situation. Opposition against lower tariffs from traditional interest groups returned and the tariff reform process was again stopped. For instance, the government restricted the import of TCF in

¹⁰ The regional cooperation forum proposed by Whitlam was not particularly detailed. Whitlam made an extensive tour of Southeast Asia (Malaysia, Singapore, Thailand, the Philippines, Laos and Burma) in early 1974 to explain his aims and to invite participation (on a visit to Indonesia a year earlier he met President Suharto and explained the plan). The reaction from the ASEAN countries was generally cautious as they feared super power domination of the region. The exception was the Philippines; President Marcos had previously proposed an almost identical plan (Hyde 1978: 69).

¹¹ Bull (1975: 31) pointed out, however, that it was doubtful if the Whitlam government's basic perception of Australia's interests and obligations had changed. He argued that the Whitlam government still thought of Australia's national security in terms of the alliance with the United States, and its prosperity in terms of its links with the rich capitalist economies, despite its efforts to develop trade with communist and developing countries.

1974/75 because of strong pressure from domestic producers. The imposition of import restrictions made the ASEAN countries, especially Malaysia and the Philippines, angry as it looked to single out ASEAN exporters for more severe treatment than their competitors such as Korea and Hong Kong (Lawe-Davies 1981: 4).

Figure 2: Australia's GDP, GDP Deflator, Terms of Trade and Unemployment Rate (1966-95)



* Percent change over previous year. ** Percent at August each year.

Source: IMF, *International Financial Statistics yearbook 1996*; Reserve Bank of Australia (1996: 202).

Mainly due to its mismanagement of the economy, the Whitlam ALP government lost the general election in December 1975.¹² In sum, and in retrospect, the Whitlam government's attempt to change almost all aspects of Australian trade and industry policy seems to have been made too quickly, and was hindered by the unfavorable fluctuation of the international economic environment.¹³

¹² In fact, Whitlam was dismissed by the then Governor-General John Kerr, because the opposition dominated Senate blocked the national budget and there was no prospect of passing it. The sacking of the Prime Minister by a Governor-General is remembered as the "constitutional crisis". For a detailed and fascinating story of the incident, see Kelly (1995).

¹³ Stagflation in Australia in the mid 1970s was derived mainly from the overseas factor, but the spending and wages policy of the Whitlam government exacerbated the problem. The earlier resources boom at the

2-3. Australia Fails to Respond to Changes in the Regional Environment

The general election of December 1975 saw the return of the Liberal/Country Coalition government, this time led by Malcolm Fraser. The period of Coalition government (1975-83) was marked by continuous disputes with ASEAN and its members over Australia's economic policy, though Prime Minister Fraser and Minister for Foreign Affairs, Andrew Peacock, repeatedly stated that Australia was committed to supporting the economic development of the ASEAN members.

As a result of steady industrialisation, the ASEAN countries had developed competitiveness in labour intensive products, such as TCF, timber and furniture by the mid 1970s, and they constantly demanded access to the Australian market for those products. In 1974, Australia rejected ASEAN demands and instead offered a development aid package. In February 1976, the Fraser government again decided to deny access for TCF imports by using GATT Article XIX that permitted import restriction in the case of emergency.¹⁴ The re-imposition of a TCF import quota was seen as particularly unjust by ASEAN members because Australia's trade balance with ASEAN at the time was in surplus, and the share of ASEAN products in total imports was relatively low.¹⁵ While imports from ASEAN were affected by Australia's unilateral action, imports from Hong Kong and Korea continued to rise substantially (Edwards 1978:13). It was natural for ASEAN to feel that it was treated unfairly by the Australian government, as the cause of most market disruption in Australia during this period centred on imports from Hong Kong and Korea.¹⁶ Nonetheless, the Fraser government was not prepared to bear the costs of

beginning of the 1970s created a desire for increased wages and encouraged the Labor government to introduce social reform and larger welfare expenditure. See Dyster and Meredith (1990: 269).

¹⁴ This move emerged against the GATT MFA Agreement framework which was based on bilateral agreements especially with developing countries (Lawe-Davies 1981: 8).

¹⁵ Australia's trade surplus with the five ASEAN countries in 1976/77 and 1977/78 was respectively 27.5% and 28% of its total trade surplus. Imports from ASEAN, meanwhile, were less than 5% of total imports (Australian Bureau of Statistics, *Foreign Trade Australia*, various issues).

¹⁶ Warr (1986: 249-53) argued, on the contrary, that Australian protection against imports from ASEAN in the 1970s was lighter than against those from the LDCs as a group including ASEAN. ASEAN exports were heavily concentrated in petroleum products at the time. However, it seems that this fact did not have any effect on ASEAN's perception and intention towards Australia.

ensuring access for ASEAN countries in the domestic market.

After the inaugural leaders' meeting in Bali in 1976, ASEAN renewed its demand for market access, but again Australia refused to compromise and offered another aid package (financial assistance) for ASEAN Industrial Projects (Mediansky 1988:241-2). However, the ASEAN members were not satisfied with Australia's attitude on the market access issue and rejected Australia's other proposal of setting up a formal committee to deal with trade related problems.

Along with other countries, Australia was invited to participate in a meeting after the second leaders' meeting of ASEAN in Kuala Lumpur in August 1977. At the meeting, Fraser offered yet another aid package, but he did not give any substantial concession on market access. Fraser also offered to establish a system for consultation with ASEAN before changes were made in Australia's tariff policy. It was initially called the "early warning system" and, after negotiations between Australia and ASEAN on how the system should function, it was finally approved in November 1978 as the ASEAN-Australia Consultative Arrangements.¹⁷ However, in August 1978 when negotiation of the "early warning system" was still underway, the Australian government imposed a special additional duty of 12.5% on certain finished products which were already subject to import restrictions. The government insisted that the imposition was purely a revenue raising measure, but ASEAN regarded it as a trade barrier increase without notice (Lawe-Davies 1981: 27). The timing of this additional duty imposition could not have been worse for Australian relations with ASEAN. It was obvious that the government's decision was taken with little regard for the foreign policy implications towards ASEAN.

In mid 1978, the Australian government announced a new International Civil Aviation Policy (ICAP). The new ICAP included policy which adversely affected the Singapore Airlines' share of the Australia-the United Kingdom route. In fact, it was only Singapore that was to be

¹⁷ Under the Arrangement, ASEAN views were to be put to the Australian government when it made protection decisions, via tariffs and/or import quotas, on products of "trade interest" to ASEAN. In terms of a policy making process of an independent state, the system was quite interesting because if other countries, or groups of countries, asked Australia for the same treatment as ASEAN, there would have been no persuasive excuses for the government not doing so. The system, depending on how it was actually used, could be a partial abandonment of policy autonomy.

affected directly by the new ICAP,¹⁸ but by the end of 1978, ASEAN as a whole adopted the issue as one of regional interests and demanded Australia negotiate with it as a unit. In terms of seeking to negotiate bilateral agreements with each ASEAN member, the Australian approach in the new ICAP seems to have been based on precedent. The government and Qantas, the national flag carrier, followed the accepted pattern for the regulation of air transport set by the International Air Transport Association (IATA) in 1944. The united front of ASEAN, however, put sufficient pressure on the Australian government to force it to revise the original ICAP. By the end of January 1979, Australia agreed to meet with ASEAN as an entity for negotiation. When resolution was achieved in May, the results were far more favourable to ASEAN (to be exact, Singapore) than had been the case with the original policy. The issue was a major test of diplomatic resolve for ASEAN and Australia, and was the first occasion on which ASEAN members confronted Australia as a unit in defense of the specific interests of one of their members (Brown 1980: 25).

By and large, most of the policies that the Fraser government decided and implemented in the context of its relations with ASEAN did not produce the expected results, though the government kept announcing its intention to develop a closer relationship with ASEAN. What ASEAN most demanded during the period was expanded access to the Australian market for labour intensive manufactures produced by each member, but the Fraser government repeatedly avoided the issue. What were the reasons behind the intransigent behaviour of the Fraser government? To answer this question, two essential points must be raised: the government's belief that Australian economic recovery could be achieved without reducing the level protection, and; its misunderstanding of ASEAN's view of regional affairs.

First, it is doubtful that the Fraser government really acknowledged the need to change Australia's industrial structure and trade structure. At least in the initial stage of its term in office, the Fraser government seems to have had resolved that it did not need to cease the protection of

¹⁸ The national flag carriers of the other four members of ASEAN were members of IATA and they initially responded favourably to Australia's approaches. The only non-member of IATA was Singapore Airlines. In addition, Singapore was the only state for which the national flag carrier was a significant contributor to GDP (3%) (Brown 1980: 23).

domestic manufacturing industries at all. The memory of the failures experienced by the Whitlam government in economic management, and the subsequent dismissal of Whitlam from the Prime Minister's office, in which Fraser himself was deeply involved, was still vivid. It meant that the Fraser government tried to avoid policies that could have caused friction with the traditional beneficiaries of protectionism. Australia's terms of trade had continued to slide from 1974 (it did not record better figure than previous year until 1988) and the unemployment rate hit the 5% mark in 1977 and stayed above it (see Figure 2). The economic environment continued to suggest that the traditional economic structure would not work anymore, but the Fraser government tried to overcome the situation with more protection. In particular, the government raised levels of assistance for the sensitive TCF and PMV industries, as Figure 1 clearly shows. Extended protectionism by the Fraser government, however, could not avoid some serious domestic opposition.

During the latter half of the 1970s, the traditional argument against protectionism, from the view point of economic efficiency and consumers' welfare, was combined with accusations that the government had mismanaged its relations with ASEAN. Mass media, especially some newspapers like *the Australian Financial Review*, *the Sydney Morning Herald* and *the Australian*, played a significant role in the development of the anti protectionism movement by combining Australia's disputes with ASEAN grievances against protectionism. In other words, the press utilised the ASEAN demand for better market access for its assertion of trade liberalisation and tariff reduction.¹⁹

The government was still reluctant to redirect its protectionist policies even when the external and domestic pressure joined forces against it. The government set up a committee, led by John Crawford, for inquiry into the issue of economic structural change. The Crawford committee released its report in March 1979. The report indicated the urgent need for a strategy to deal with adjustment problems and to encourage industry to become more import competitive and more export oriented. It also recommended, however, that the procedure to reduce levels of protection should be gradual and introduced only after positive industrial development incentives

were provided (Commonwealth of Australia 1979). Though the policy recommendations of the report were based on a gradualist approach, the government's cautious attitude on the issue did not change. To achieve the recovery of Australia's economy, its highest policy priority, the Fraser government chose to wait for another export boom to occur which, in retrospect, did not take place until the late 1980s. The government did not recognise that economic recovery was directly linked to the reorientation of its protectionist policy, despite the fact that the international economic environment, such as the prices of primary products and the development of the neighbouring East Asian economies, had changed.

Second, there seems to have been fundamental misunderstandings about ASEAN and its view on regional affairs within the Fraser government. The Fraser government was concerned with relations with ASEAN primarily in terms of how these relations merged with its own world-view, and this view was strongly influenced by the Prime Minister himself. For Fraser, Brown (1980) argued, the end of the Vietnam War in 1975 meant the beginning of a new era of instability in Southeast Asia, and the expansion of the Soviet influence to the south.²⁰ Australia needed allies. As the United States was unwilling to commit itself deeply in the region, ASEAN was perceived to be an essential ally. The Fraser government's insistence on the importance of economic development of the ASEAN countries, and development of ASEAN itself as a regional institution, was based on this view, but these developments were not direct objectives of the Australian government. In other words, the government was tied to the "Right" stereotypical perception of ASEAN mentioned earlier. A speech made by Fraser to Parliament in 1976 clearly showed this tendency:

We want to identify and develop further areas of practical cooperation on shared political and strategic interests [with ASEAN]. We will seek to do this through our aid program, through involvement in regional efforts to advance economic and social development, and by

¹⁹ Even if the tariff reductions were made on an MFN basis in the late 1970s, Hong Kong, Korea and Taiwan would have been the beneficiaries, as they still had comparative advantage on products like TCF over ASEAN countries (Lawe-Davies 1981: 9).

²⁰ A series of incidents in Asia after the end of Vietnam War, such as the establishment of communist regimes in Laos and Cambodia, the Vietnamese invasion of Cambodia in late 1978 and the Soviet invasion of Afghanistan in late 1979, seemed to verify Fraser's view.

the promotion of trade and other economic cooperation (quoted in Brown 1980: 20).

However, in contrast to the view of Fraser, the world and regional view of the Australian government was not shared by the ASEAN countries. ASEAN had never been a military pact against direct invasion from outside forces. Rather, the organisation's main objective was to develop regional resilience and stability through non-intervention and without relying on any of the Super Powers. ASEAN was gradually developing itself as a "pluralistic security community".²¹

The misunderstanding of ASEAN by the Fraser government was depicted by the withdrawal of its support for ZOPFAN in January 1976. The government saw ZOPFAN as impractical since it did not allow ASEAN members to permit allied military bases on their territories on a permanent basis. Regional neutrality, however, had a symbolic meaning in ASEAN's political cooperation. Whether the ideal expressed by ZOPFAN was achievable did not have particular importance. What was significant, however, was that Australia's rejection of ASEAN political cooperation was perceived as a hostile attitude by the ASEAN countries.²²

Similarly, the market access question had a political significance for ASEAN. When ASEAN's demand for better market access for their labour intensive products had become intense, the Fraser government was simply not prepared to give any concession. Instead, the government tried to calm ASEAN by means other than reducing the level of protection.²³ For the Australian government, Australia's trade with ASEAN did not have primal importance in the

²¹ In the context of the security aspect of regional integration, Deutsch (1967) defined "pluralistic security community" as a group of states with shared security policy which did not have an amalgamated political institution. In the case of ASEAN, ZOPFAN concept can be seen as its shared security policy.

²² For another example of the government's misunderstanding of ASEAN, the suggestion by Andrew Peacock (the Minister of Foreign Affairs) for ASEAN to play a role to solve the conflict in East Timor can be raised. He even said that if ASEAN had done it earlier, Indonesia could have avoided its military intervention (Brown 1980: 5).

²³ In addition to the series of aid packages, the creation of the AAECF and the "early warning system" and the modification of ICAP, all mentioned earlier, the Australia government had had the Australian System of Tariff Preference for developing countries' exports since 1966, created the Development Import Finance Facility to help develop infrastructure of developing countries, and removed the British preferential tariff margins in 1980.

1970s in terms of its share of total trade.²⁴ The Australian government even seemed to believe that the ASEAN demand was unfounded. In July 1977, Fraser stated in a television interview that, considering that the Australian market was very small compared with others like the United States, Japan and the EEC, some ASEAN import growth rates had been very high.²⁵ For ASEAN members, however, it was very important to achieve better access to Australia, even if the market was small, because the growth of their capacity to export labour intensive products was rapid and to maintain that momentum, and thus keep the economic development of each member going, it was thought necessary to export as much as possible. Furthermore, if ASEAN could achieve better market access by persuading the Australian government, then it considered that it may have also been able to put pressure on other larger markets (principally Japan) to do the same (Brown 1980: 17-9). Also, it can be said that ASEAN, with or without initial intention, used the trade disputes with Australia as a test of its negotiation style, to form a united stance and to gain more bargaining power. This attempt, and its success, was perhaps best highlighted by the ICAP issue. The Australian government could not perceive the political and economic aims behind ASEAN demands for market access while it was tied to the “Right” stereotypic conception.²⁶

The Fraser government’s hesitance in removing protectionism, and its misunderstandings about ASEAN, caused a distinct inconsistency in its policies towards the region. The action, or inaction, that the Australian government took against ASEAN demands was ironic as the government had long been arguing that it was better for developing countries to develop their economies through trade, rather than depending on development assistance from overseas. It is this point upon

²⁴ Australia’s exports to ASEAN countries accounted for 7% of its total in 1960 and 8% in 1975 and 1980. Its imports from ASEAN in 1970, 1975 and 1980, on the other hand, accounted for 2%, 3% and 7% of the total respectively.

²⁵ Lawe-Davies (1981: 20) opposed to this view stating that the data of the base year for Australia’s figure was exceptionally low.

²⁶ In addition, a general perception of political and cultural differences between Australia and ASEAN countries which was held by both parties, and is still lingering now, might have had effects on the Australian government not to change its policies towards ASEAN to accommodate its demand easily in the 1970s. Incidents such as Indonesia’s occupation of East Timor and Radio Australia’s report on Indonesia, and the subsequent expulsion of an Australian correspondent by the Indonesian government, caused mass protest by the Australian public. To know more about the perception and its development in the 1970s and the 1980s, see McCawley (1983: 86-94) and Angel (1992: 159-60).

which ASEAN had an advantage in negotiations with Australia.

In the report²⁷ by a committee, led by Liberal Party Senator J.P. Sim, that was set up by the Senate for inquiry into Australia-ASEAN relations in March 1979, one of the witnesses from the Department of Foreign Affairs said:

Australia has a domestic economic policy and a foreign economic policy which are going in a different direction to the foreign political policy. Both the domestic and foreign economic policies are turning away from the ASEAN countries concerns; yet the foreign political policy is placing more emphasis on ASEAN, thereby creating problems (Commonwealth of Australia 1980: 27).

This statement suggests that the government was not well aware of the fact that, in an era of deepened interdependence, the line between what was traditionally thought to be “domestic” policy and “foreign” policy had become increasingly blurred. It had therefore become crucial for policy makers to take both domestic and foreign implications into consideration when making economic policies. In fact, as we have seen, Australia’s protectionism was closely linked to relations with ASEAN and its individual members. The committee admitted that Australia’s dilemma was in attempting to promote export growth while continuing to provide high tariff and quota assistance to particular industries. Expanded trade with developing countries, including ASEAN, would involve structural adjustment for Australian industries (Commonwealth of Australia 1980: 40). It also admitted that economic (not political) relations were the key to improved Australia-ASEAN relations (Commonwealth of Australia 1980: 29). In 1979, the then Leader of the Opposition (later the Minister for Foreign Affairs, 1983-88), Bill Hayden stated that:

²⁷ In the preface of the report, there is an interesting comment by the committee members. It says: “The Committee felt that ... views and information from ASEAN countries were necessary to balance the material derived from Australian sources. ... the Committee sought the Prime Minister’s assistance to visit the countries. This request was refused and as a result three Committee members together made a personal visit. The Prime Minister’s permission was sought for the Committee Secretary to accompany the Committee members on their visit, but was also denied” (Commonwealth of Australia 1980: 1). This story may also be

ASEAN is the touchstone of Australia's performance in international relations: if we cannot manage our relations successfully on this front, there must be severe reservations about our prospects on others (Quoted in Commonwealth of Australia 1980: 26).

In 1980, former Prime Minister Whitlam also criticised the Fraser government saying:

Australia is bound to suffer the same ASEAN reaction against its protection policies as it suffered against its ICAP policies. The most sensitive area of protection is in textiles. Abroad Mr Peacock, and even Mr Fraser, have uttered impeccable sentiments in favour of developed countries reducing protection.... At home they forbid departments to contemplate any reduction in protection (Whitlam 1980: 264-5).

These statements seem to indicate that, around the beginning of the 1980s, an environment that favoured economic policy reorientation had gradually formed in Australia's political arena. This policy reorientation would finally occur when the ALP regained power in 1983.

3. Since the 1980s: Australia Catches Up with Accelerated Change in the International Economic Environment

3-1. Attempts for Structural Adjustment by the ALP Government

As briefly explained in the Introduction to this chapter, the ALP government, led by Bob Hawke, started to introduce decisive policies to reform the domestic economic structure soon after winning office in 1983. The domestic economic conditions in the last years of the previous Fraser government were a direct trigger for this reorientation of domestic economic policies. Australia's terms of trade had been declining since 1974, but in 1980, it recorded an almost 10% slide from the previous year. The unemployment rate started to rise sharply in 1982, and rose to almost 10% in 1983. The inflation rate, which had experienced a downward trend since 1975, began to

seen as an implication of the difference between the Fraser government's expressed concern on Australia-ASEAN relations and its real commitments.

rise from 1979 (see Figure 2).

To overcome this situation, the Hawke government's first move was to liberalise Australia's financial market. In early 1983, the government surrendered official control of the exchange rate, deregulated interest rates and liberalised the entrance and operation of foreign banks in the domestic market. As a result, by the end of 1988, the exchange rate of the Australian dollar against the US dollar had depreciated by 24%, to a level prevailing at the beginning of the 1980s (Keating and Dixon 1989). At the same time, the Federal ALP, being in a position to have close relations with trade unions and the labour movement, achieved policy agreement (the Accord) with the Australian Council of Trade Unions (ACTU), the peak organisation of trade unions in Australia. The Accord, which was renewed seven times over the period between 1983 and 1996, when the ALP remained in office, was made with the purpose of controlling the level of real wages within a manageable range, thus controlling one of the major forces of inflation.²⁸

The depreciation of the Australian dollar was expected to result in an increase in exports and a decrease in the current account deficit and foreign debt, however, it did not have this effect immediately. In fact, the economic situation worsened after a brief recovery during 1984 and 1985. The current account deficit rose to around 4.5% of GDP in 1986, and foreign debt also rose.

The strong tendency of both the public and the private sector to spend, thus encouraging imports, and the lack of competitiveness in manufacturing industries were perceived to be the major obstacles to the comprehensive reduction of the current account deficit. To increase competitiveness in manufacturing, the government decided to expose industries to competition in domestic and world markets and to phase out the protection that they, and related parties such as trade unions, had long enjoyed. The Economic Statement of May 1988 announced a general program of phased reductions in protection for all manufacturing industries: tariff levels over 15% were to be reduced to 15% (except for PMV and TCF) by 1992, and tariffs between 10% and 15% were to be brought down to 10% by the same year. The Industry Policy Statement in

March 1991 declared the continuation of the program stating: tariffs of most imports to be phased down to 5% by 1996; the average nominal rate of assistance to be reduced to 3% by the end of the 1990s, and; the average effective rate of assistance to be reduced to 5% by the same time. As for so called “sensitive” industries, import quotas for PMV and TCF were abolished in 1988 and 1993 respectively. By 2000, the tariff rates of PMV and most textile and footwear imports will be reduced to 15%, and clothing products will have a flat tariff rate of 25% (Corden 1995:12; Stanford 1992).²⁹ These significant measures to reduce protection for manufacturers are clearly depicted by substantial falls in average ERAs since 1986-87, as shown in Figure 1.

It is important to acknowledge that the decision to diminish protectionism was made unilaterally, not reciprocally, and in difficult economic situations. The recession in 1986 forced the government to acknowledge the desperate and urgent need for structural adjustment of the domestic economy. The famous “banana republic” speech by the then Treasurer, Paul Keating, was made in May 1986.³⁰ Thus, it is understandable that the government announced its Economic Policy Statement of 1998 mentioned above, at the time of economic recovery.³¹ However, in the year (1991) that the Industrial Policy Statement was released to continue the tariff reduction program, the Australian economy was in poor condition. GDP had recorded minus growth for the first time since 1982, the unemployment rate had risen to 9.5% and the terms of trade had dropped 9.6% over the previous year (see Figure 2). The Hawke government’s decision to liberalise and deregulate the domestic economy should be seen as decisive, as previous governments had backed down from the reform, even if they had acknowledged the need to pursue it.

²⁸ The Accord was seen to be successful in certain degrees, especially so in the latter half of the 1980s. For details of the Accord and its implications on the Australia’s politics, see for examples Stilwell (1986), Singleton (1990) and Matthews (1994).

²⁹ In June 1997, the Liberal/National Coalition government, which returned to office in March 1996, announced the freeze of tariff rates for PMV for 5 years after 2000. In September, the same treatment was decided for TCF (*The Australian*, 6 June and 11 September 1997).

³⁰ Keating’s remark on the economic situation on a radio program went as follows: “*I get the very clear feeling that we must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in. ... It’s the price of commodities on world market but it means an internal economic adjustment. And if we don’t make it this time we never will make it. ... We will just end up being a third rate economy ... a banana republic*” (quoted in Carew 1992: 171-2).

3-2. Rapid Economic Growth of ASEAN and the Deepening of Australia's Economic Relations with the Region

After the worldwide recession in the early 1980s the ASEAN economies recovered strongly with significant structural changes. The realignment of international currencies following the Plaza Accord in September 1985 was one of the main factors that generated these changes. Because of the rapid appreciation of their respective currencies against the US dollar,³² manufacturers in Japan and Asian NIEs shifted much of their production and export bases to the ASEAN countries. In Indonesia, Malaysia and Thailand, the traditionally dominant sectors of agriculture, fishery and mining lost their traditionally high shares of GDP. On the other hand, the manufacturing sector increased its share in all three country.³³ New operations from FDI that flowed in over this period laid the foundation for the strong increase in manufacturing production. The increase in ASEAN trade and the change in the composition of trade was even more impressive. The annual growth rate of exports of ASEAN as a whole surpassed the world average since the end of the 1980s. In every country, the share of manufactures soared while that of the traditional exports (crude materials, fuels, food and live animals) decreased considerably. The growth in imports was also significant. Most of the increase came from intermediate goods and machinery for manufacturing production. It was inevitable that ASEAN would increase imports of these goods because production structures shifted significantly towards manufacturing from the mid 1980s, and there had not emerged a capacity to produce these goods domestically (Okamoto 1995: 2-10).

As a result of ASEAN's rapid economic growth, trade between Australia and ASEAN increased sharply over the same period. Figure 3 illustrates the growing importance of the East Asian economies as Australia's trade partners. Figure 3-a shows that Australia's exports to Japan started to increase rapidly in the mid 1960s. Japan became the largest single export

³¹ GDP growth rate in 1987, 1988 and 1989 were 4.7%, 4.3% and 4.2% respectively. The unemployment rate tended to decline over the period and the terms of trade recorded a better figure than previous year for the first time in 15 years in 1988 (see Figure 2).

³² The Japanese yen appreciated 33% against the US dollar during the period of 1986-90. In the same period, the Korean won appreciated 20%, the Singapore dollar 17% and the Taiwan yuan, 29%.

³³ The share of the manufacturing sector in GDP increased from 18.5% in 1988 to 21% in 1992 in Indonesia, from 24.4% to 28.9% in Malaysia and from 25.8% to 29.6% in Thailand in the same period (Okamoto 1995: 4).

destination in the latter half of the 1960s and it remains so. Exports to NIEs and ASEAN started to grow quickly in the mid 1970s. From 1980 to 1995, the fastest growing export destinations were NIEs with a more than 450% increase over the period, followed by ASEAN with a 360% increase.

Figure 3-a: Australia's Exports by Destination, 1948-95 (US\$ millions)

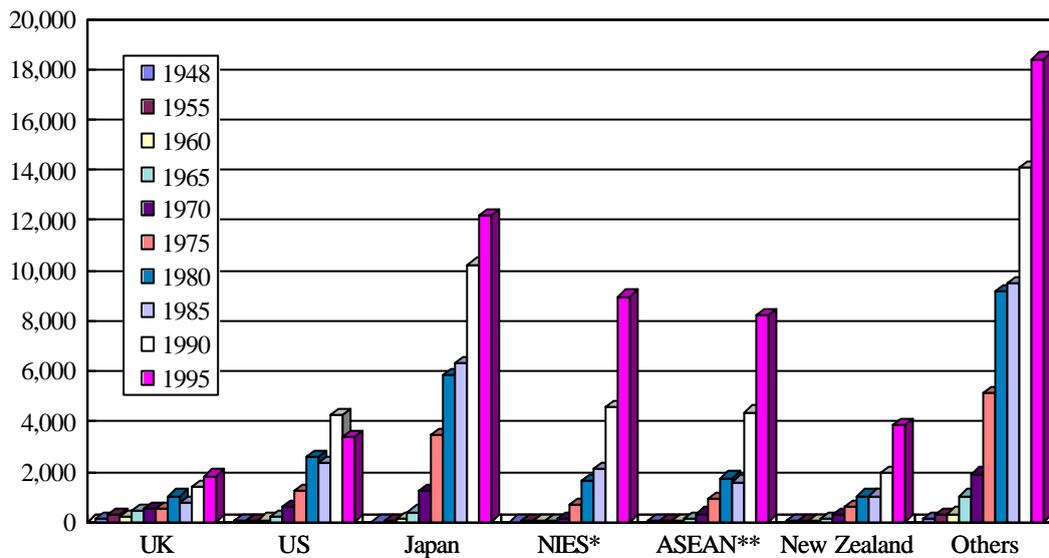
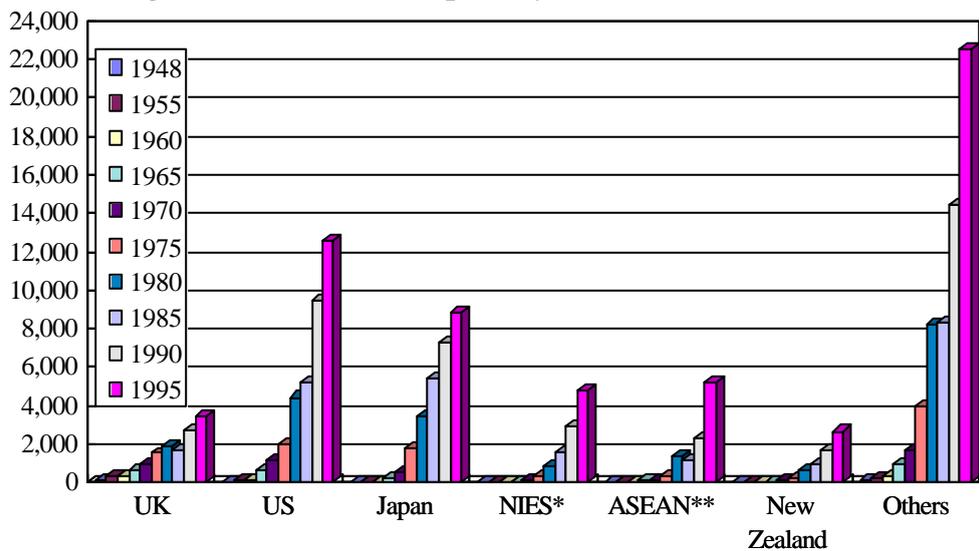


Figure 3-b: Australia's Imports by Source, 1948-95 (US\$ million)



* Hong Kong, Korea and Taiwan. ** Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, various issues.

According to Figure 3-b, the United States remained as a major import source for Australia. The imports from the East Asian economies also steadily increased from the 1970s. Again, imports from Japan started to grow earlier than those from other East Asian economies. The fastest growing import sources over the period from 1980 to 1995 were NIEs with an increase of more than 430%, then, New Zealand with a 286% increase, closely followed by ASEAN with 278% growth.³⁴ It can surely be said that ASEAN emerged as one of Australia's fastest growing markets, along with the NIEs.

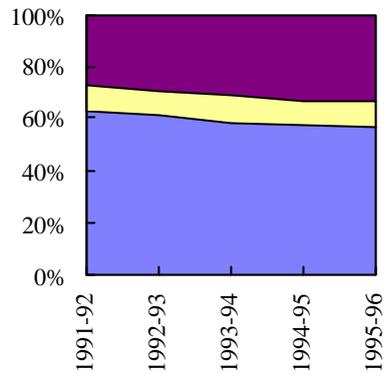
As well as the impressive growth in value of Australia's exports to ASEAN and the NIEs, the composition of exports to those economies was favourable to Australia. Figure 4 substantiates the point. The Hawke government needed a favourable trade result to reduce tariff rates further in the late 1980s and early 1990s. The result that the government desperately wanted to see was a growth in the share of manufactures as a share of total exports, as well as strong growth in the total value of these exports.

**Figure 4: The Composition of Australia's Merchandise Exports
in the 1990s**

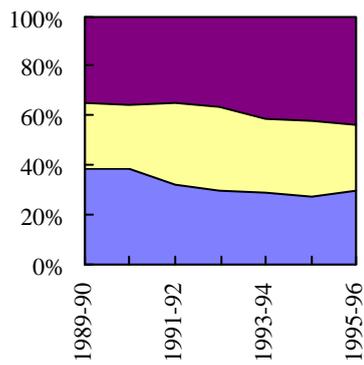
³⁴ It is interesting to note that, among the economies in Figure 3, Australia has recorded trade deficits with the United Kingdom and the United States for almost the whole postwar period, while it has recorded trade surpluses with East Asia. Since the 1970s, the trade surpluses with East Asian economies have almost offset the deficits with the United Kingdom and the United States, with an exception in the mid 1980s (Okamoto 1997a: 23-4).

(World)

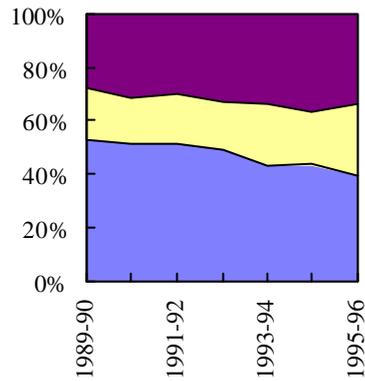
■ Manufactures
■ Other Exports
■ Primary Products



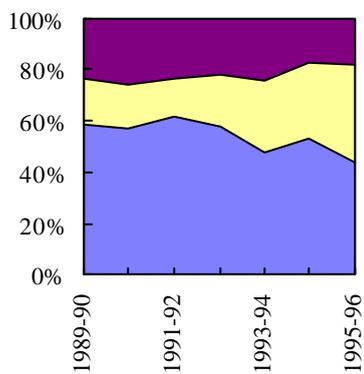
(ASEAN)*



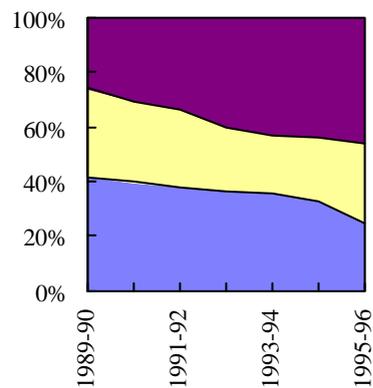
(NIEs)**

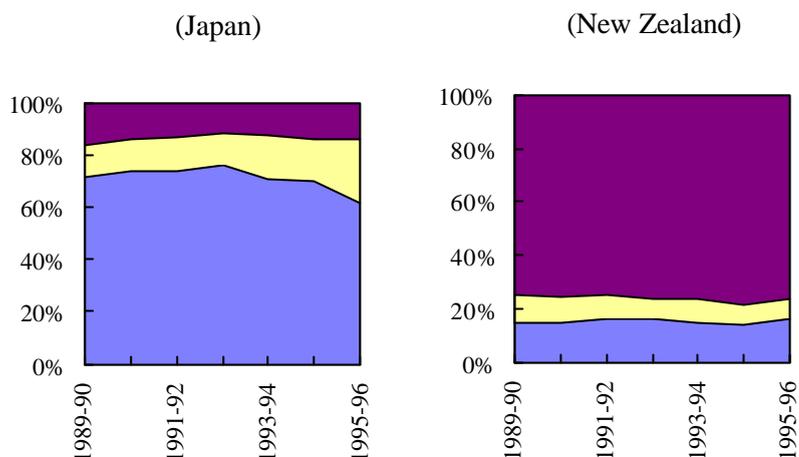


(China)



(The United States)





* Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

** Hong Kong, Korea and Taiwan.

Source: DFAT, *The APEC Region Trade and Investment: Australian Supplement*, November 1994 and November 1996.

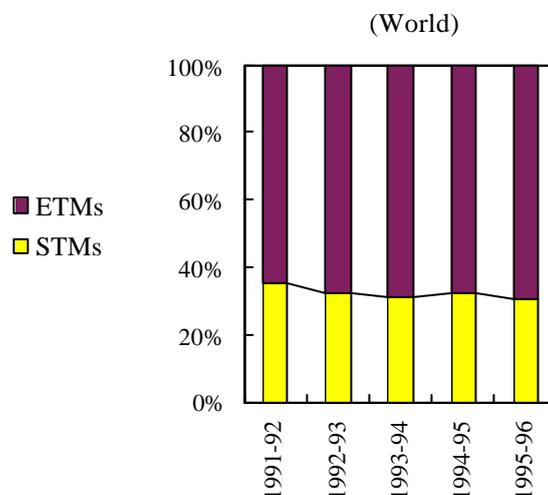
Looking at the composition of Australia's overall exports (World), it seems that the manufacturing sector gradually acquired international competitiveness. Manufactured products occupied 27.6% of the total in 1991-92 and the figure steadily rose to 33.7% by 1996-96. Among the export destinations in Figure 4, ASEAN, the United States and New Zealand clearly surpassed the World figure. On the other hand, the figures for Japan show that primary products still occupied a relatively large amount of the total, and the share of manufactures did not grow as much as the Australia government might have hoped. The NIEs showed a similar trend as the figures for Australia's total exports (World) which means that the share of manufactures grew steadily. The figure for ASEAN grew from 34.9% in 1989-90 to 44% in 1995-96, and for the United States from 25.9% to 46% over the same period. For New Zealand, the figure stayed around 75% for the whole period. Considering that total exports to the United States were stagnating (see Figure 3-a), and that trade between Australia and New Zealand was conducted within the framework of a free trade agreement (i.e. CER) with export competitive agricultural products overlapping each other, ASEAN, along with the NIEs, can be seen as a major prospective market for Australia's manufacturing exports.

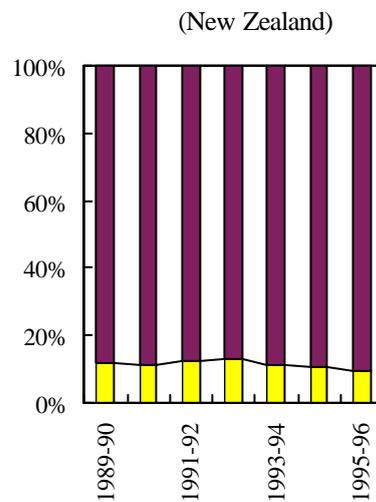
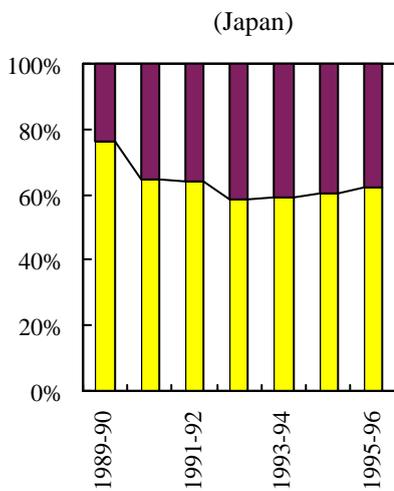
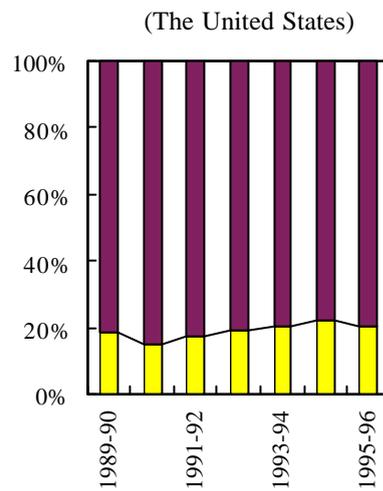
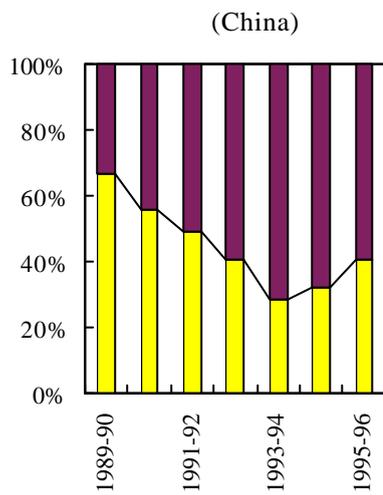
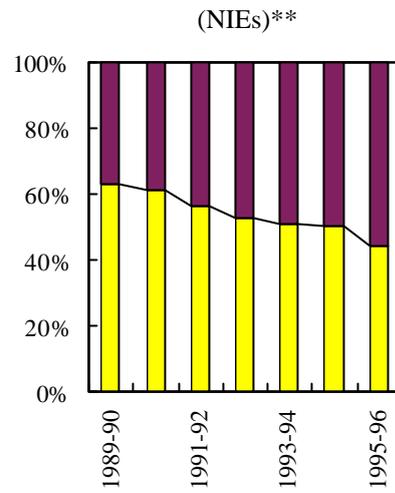
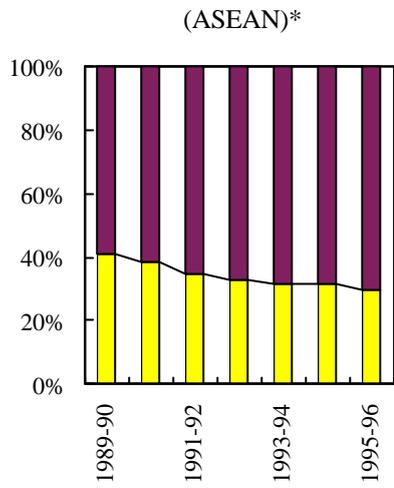
Furthermore, as an important objective of the structural reform of its domestic economy since the latter half of the 1980s, the Australian government reiterated the need to develop

manufacturing industries that produce and export more value-added products. In other words, the Australian government expected the production and export growth of elaborately transformed manufactures (ETMs) to outstrip the export growth of simply transformed manufactures (STMs).

Figure 5 presents the share of STMs and ETMs in Australia's manufactures exports in the 1990s. Again, the general trend of the share of STMs and ETMs in Australia's total manufactures exports is shown at the top (World). The figure shows the increase of the share occupied by ETMs, but also shows that this growth was very gradual. ETMs occupied 65% of total manufactures export in 1991-1992, and the figure rose to 69% in 1995-96. The only destinations for which share of ETMs constantly surpassed the same figure for World were the United States and New Zealand. The figures for both countries, however, did not experience an upward trend. In fact, the figures for the United States decreased from 1991-92 to 1994-95 though ETMs still occupied 80% of the total manufactures export in 1995-96. The figures for New Zealand seemed to be stuck at around 88-90% for the whole period.

Figure 5: Share of STMs and ETMs in Australia's Total Manufactures Exports in the 1990s





* same as Figure 4. ** same as Figure 4.

Source: same as Figure 4.

On the other hand, a constant rise in ETMs share of total exports over the period occurred in trade with ASEAN and the NIEs. The figure for ASEAN was 59% in 1989-90 but this figure increased to 71% in 6 years, a rate which was 2 percentage points higher than the World figure. The figures of Australia's ETMs exports to the NIEs were much less than those for World for the whole period under consideration. However, it rose from 37% in 1989-90 to 56% in 1995-96.

Until 1993-94, the Chinese market also seemed promising for Australia's ETMs exports. The growth of STMs share in total manufactures export to China was very fast, reaching 71% in 1993-94, but the growth subsequently declined, dropping more than 10 percentage points to 60% in two years. From the figures for Japan, it can be said that Japan was not an excellent importer of Australia's ETMs. The share of ETMs in Australia's manufactures exports to Japan recorded the lowest figure among those of the countries/regions in Figure 5 over the period. The figure for Japan reached just over 40% in 1992-93 but then, began to slide as the economic recession in Japan deepened.

In sum, the rapid economic growth of the ASEAN countries which began during the 1980s brought about a deepening of Australia-ASEAN economic relations incomparable to previous decades. However, the growing economic importance of the relationship was more acute for the Australian side than for ASEAN. The Australian government changed its economic policy to restructure the domestic economy in an effort to respond positively to changes in the international economic environment that had been prominent for more than a decade. The government reduced the levels of protection for domestic industries decisively in the 1980s to develop international competitiveness and to aim for the diversification of Australia's exports away from traditional commodities. Following the path of Japan and NIEs, ASEAN emerged as a new prospective market for Australia at the time. Not only was it important that the value of Australia's exports to ASEAN increased sharply from the latter half of the 1980s, but that the

share of manufacturing products in those exports was also growing. Moreover, the ratio of ETMs in Australia's manufactures exports to ASEAN showed a tendency for continuous increase. Thus, for Australia, both the government and industries, it can be said that ASEAN became one of the most important and promising economic partners.

From 1983, the Hawke government's external policy strongly reflected its policies for domestic economic reform. As the Cold War framework began to decay during the latter half of the 1980s, and ASEAN emerged as an important economic partner, the weight of economic concerns in the relationship with ASEAN became much heavier than had been the case in previous decades.

3-3. Australia's Asian Engagement and the Emergence of Common Interests between Australia and ASEAN

By the early 1980s, the Asia Pacific region, especially East Asia, was already seen to be the most dynamic area of economic development. The Hawke government shared this view and set the geographical focus of its economic relations on the region. Less than a year after the ALP won the March 1983 election, the Minister for Foreign Affairs, Bill Hayden, delivered his speech titled "*Australia and the Asian Regions*" with an emphases on domestic economic problems and economic relations with East Asia. He stated that:

we are now in a time of fundamental technological and economic change - and we have, above all, to learn that truth quickly. These changes have profound implications for our economy, our foreign policy, our social system - our way of life. ... We are on the edge of a rapidly industrialising, vigorous region which offers us enormous challenge and potential if we have but the foresight and wit to respond to it (Hayden 1983: 150).

The shift of geographical focus in economic relations towards the "near north" was also driven by the protection against imports of agricultural products in the EC, the United States and Japan at that time. For Australia, the EC's Common Agricultural Policy was severely limiting the access of Australia's agricultural exports to Western Europe. In addition, a large export subsidy program

(the Export Enhancement Program) by the United States had direct and negative effects on Australia's export market of agricultural products, particularly wheat.

This intention of closer economic relations with the "near north", however, was not exactly matched by existing trade between Australia and East Asia. It was true, as shown in Figure 4, that the total value of Australia's exports to Japan, NIEs and ASEAN had rapidly increased over the 1980s but it was also apparent that the share of imports from Australia to the total imports of these economies had decreased over the same period. At the end of the 1980s, Australia's share in Japan's total imports was less than 6%. The figures for NIEs and ASEAN were even less impressive, recording around only 2% and 3% respectively.³⁵

Towards the end of the 1980s, the Hawke government realised that the Australian economy had not been adapting to the ongoing structural adjustment in East Asia, derived mainly from the drastic realignment of exchange rates since the mid 1980s. The import demand of the East Asian economies had been shifting towards processed raw materials, manufactures and services, and away from traditional primary products (Hawke 1988: 9). At the heart of the problems was the fact that Australian business had not responded properly to the changing import requirements of East Asia (Dawkins 1988: 15).

The May 1988 Economic Statement and March 1991 Industrial Policy Statement were decisive endeavours to diversify the range of export products through tariff rate reductions. As Australia was not in the position to compete directly with economies like the United States and Japan in the mass production area, and could not compete with labour intensive products of NIEs and ASEAN where low cost unskilled labour is the main factor in determining competitiveness, a shift towards the exports of processed raw materials, capital intensive and high technology products (in other word, ETMs) and services seemed to be the only answer to take advantage of rapidly growing East Asian economies. Gaining a relative price competitiveness through the depreciated exchange rate was not enough.

To underpin structural reform of the domestic economy, Australia needed to maintain and promote a free and open international trade and investment regime, most importantly GATT. The

³⁵ In fact, the share of imports from Australia as a percentage of total imports was declining for almost every economy in the Asia Pacific region. See Table 3 of Okamoto (1997b: 73-4).

international trade regime, however, was fragile in the late 1980s and the early 1990s. When the Uruguay Round was deadlocked, the United States opted for the creation of free trade areas with Canada, and then with Mexico, to form the North American Free Trade Area (NAFTA). The United States suggested that other bilateral and/or regional arrangements could follow. Also, the European Community (EC) integrated its members' markets and became the European Union (EU). Economic groupings including economic powers like the United States and the EU made outsiders very cautious. For Australia, the Australia New Zealand Closer Economic Relations and Trade Agreement (ANZCERTA, commonly known as CER) was the only comprehensive free trade agreement it had made.³⁶ The CER emerged as a major factor in the growth of trade between the two countries, and the distinctive nature of Australia's export composition towards New Zealand (See Figures 3, 4 and 5), but it was obvious that the CER alone would not fulfill Australia's needs.

The Australian government reacted to the US and the EU moves firstly by considering the need for an Asia Pacific regional bloc. But since it was realised that a preferential bloc in the Asia Pacific region would neither be sensible nor successful (Harris 1992: 40), the Australian government set a foreign economic policy objective to promote global free trade via cooperation among the Asia Pacific economies (open regionalism). To do so, ASEAN became the most important negotiation partner since it had been the most cautious on this kind of endeavour historically (a similar initiative by Whitlam in the early 1970s, and the ASEAN rejection of it is discussed earlier). At the same time, participation and cooperation by ASEAN was crucial because its members still maintained relatively high protection for their rapidly growing national economies.³⁷

On the ASEAN side, rapid economic development since the latter half of the 1980s had made each member confident (maybe except for the Philippines where economic development was

³⁶ The original free trade agreement with New Zealand was signed in 1965. The CER became operative in 1983 and was extended in 1988 to trade in goods between the two countries by 1990. Since then, free movement has been extended to services and thus, CER has become one of the most comprehensive free trade arrangement in the world.

delayed by political confusion and natural disaster during the period) in the management of domestic economy within the favourable international economic environment. This confidence was illustrated by a series of unilateral measures to liberalise ASEAN economies from the late 1980s. As their international economic transactions significantly increased, ASEAN economies had inevitably been enmeshed in regional and global interdependence. Thus, the free movement of goods, especially manufactures, and capital, including FDI, became an ASEAN policy priority by the end of the 1980s.

One of the responses from ASEAN to the US and EU tendency for bilateral and/or regional free trade arrangements was the creation of its own free trade area, formalised as AFTA.³⁸ However, since the intra-regional trade among ASEAN was still small,³⁹ AFTA could not be seen as a direct answer for maintaining a favourable international economic environment for ASEAN countries. Like Australia, ASEAN needed a wider regional, or global, regime to assure preservation of its economic development momentum. In addition, the end of the Cold War in the same period helped ASEAN countries develop relatively free from political and security concerns, and made them ready to commit themselves to the maintenance of free trade.

Though growing from different contexts, a common economic interest between Australia and ASEAN finally emerged.

4. Australia's Commitment to Global and Regional Free Trade and ASEAN's Involvement

³⁷ Greg Sheridan, the foreign editor of an Australia newspaper (*the Australian*), admitted that the Keating government was coming to emphasise Southeast Asia in Australia's foreign policy. See his column (Sheridan 1997).

³⁸ There were other factors behind the creation of AFTA. At the time, China and Vietnam emerged as attractive FDI destinations for Japan, NIEs and others. ASEAN countries were desperate to keep FDI inflows by allowing free trade within the region.

³⁹ In 1990, exports of developing members of ASEAN (Indonesia, Malaysia, the Philippines and Thailand) to other members accounted only 4.2% of their accumulated total. The figure for the imports in the same year was 3.9%. See Table 3 in Okamoto (1997b: 73-4).

4-1. Australia's Cairns Group and APEC Initiative: Inviting the ASEAN Countries as Essential Members

Australia's commitment to the maintenance and promotion of free trade was very strong from the latter half of the 1980s. Among a variety of activities, the Cairns Group and APEC initiatives stand out.

Australia successfully included agricultural products in the Uruguay Round agenda in 1989 mainly by efforts made through the Cairns Group that was formed in 1986. Before the start of the Uruguay Round, the Fraser government had failed to add agricultural products to the agenda of the GATT ministerial meeting in 1982. Freer trade in agricultural products, in which Australia had been traditionally competitive, had been an objective of successive Australian governments, but it was never realised. The Hawke government had learned that it could not achieve its policy objectives alone in multilateral negotiations (Cooper and Higgott 1990:18). Thus, to increase pressure on the two major players in this area, the EC and the United States, Australia, with New Zealand and Canada, led in the formation of the Cairns Group. All ASEAN countries, except Singapore and Brunei which did not have an agricultural base in their territories, participated in the Group. Even after the conclusion of the Uruguay Round, the Group remained active in pushing for agricultural free trade by organising annual ministerial meetings and preparing for the initiation of multilateral negotiations under the WTO Agriculture Agreement framework to be held by the end of 1999. At the time of writing, Australia was scheduled to host the Cairns Group ministerial meeting in Sydney in April 1998.

The APEC initiative by Prime Minister Hawke in 1989, and Australia's active involvement to its development, are well known and there is no need to go into detail here. It should be emphasised, however, that important trade and investment partners of Australia are located on both sides of the Pacific (East Asia and North America). For Australia, APEC is an important, as well as convenient, vehicle to tie its members together. It provides an opportunity to promote economic liberalisation and unite members into one "region" at the same time.

It is notable that ASEAN countries were crucial participants in the self-proclaimed success of "middle power diplomacy" by the ALP government in the Cairns Group and APEC initiatives.

The essence of the middle power diplomacy that Australia advocated was to form a coalition of like-minded countries on an issue by issue basis and to achieve shared objectives through the strengthened bargaining power of a coalition (Evans and Grant 1991: 322-6).⁴⁰

The Australian government invited ASEAN countries to join both the Cairns Group and APEC. It almost desperately did so in the case of APEC.⁴¹ As had previously been the case, the ASEAN countries were initially cautious about the new APEC initiative. During early 1989, ASEAN members suggested that the inclusion of powers like the United States and Japan might undermine ASEAN's autonomy and its meaning as a successful regional organisation. This time though, Australia, along with Japan, persuaded ASEAN to accept the APEC initiative by providing assurances that: first, there would be no domination of the process by any single participant or sub-group of economies; second, it would be based on seeking consensus through consultations, not on a formal negotiation process, and; third, there would be no elaborate new bureaucracy or secretariat and all work would be done by existing organisations. Support from, and the participation of ASEAN were crucial for the establishment of APEC. If ASEAN had not approved the APEC concept, other East Asian countries, especially Japan, would not have joined the forum. Without the participation of the key dynamic economies of East Asia, regional cooperation would have been meaningless.

Furthermore, the Australian government realised that, in those middle power coalitions which inevitably included members with different background (levels of economic development, political regimes, population, culture, etc.), the so called "ASEAN way" of consultation and/or negotiation was necessary. The ASEAN way, which evolved over the period of regional cooperation, can be summarised briefly as follows. First, to deal with regional cooperation and policy coordination, an overall framework is set based on consensus among national leaders and senior officials. Detailed and concrete means for cooperation are made later by technocrats of

⁴⁰ Australia's seeking to form coalitions for international issues in this period was not limited to economic matters. For examples, the Australian government formed an active group for promoting the Chemical Weapons Convention (later culminated in the Australia Group) and it played a positive role in formulating the United Nations Peace Plan for Cambodia.

⁴¹ During the period between January, when Hawke made a speech on the APEC initiative in Seoul, and November, when the inaugural Ministerial Meeting of APEC was held in Canberra, 1989, the Minister for Foreign Affairs, Gareth Evans, and senior officials of the Department of Foreign Affairs and Trade made extensive visits to the ASEAN countries to explain the initiative.

individual members for leaders' approval. Second, in pursuing objectives defined in the framework, a voluntary and unilateral approach is applied. Even if the levels of commitment vary among members, compromise through negotiations will not usually take place (Okamoto 1997b: 83-4).

Both the Cairns Group and APEC were created to operate through consensus among members. The Concerted Unilateral Approach (CUA) for trade and investment liberalisation and facilitation within the APEC region was modeled on the ASEAN way. At first, Australia, along with countries like the United States and Canada, preferred a more legally binding way of trade and investment liberalisation, but these countries decided to accommodate ASEAN's (and other developing countries') will for the CUA to maintain the APEC framework.

In January 1996, the then Prime Minister, Paul Keating summarised the characteristics of APEC as follows: it is driven as much by the small and medium powers as by the large ones; it is a cooperation forum between countries at different levels of development, and; it takes a different approach from formal (legal) structures. These three characteristics are the same as ASEAN's and it seems that Keating, and the Australian government, are well aware of it. Keating went on saying that:

The drag out/knock down approach to trade negotiations has surely reached the end of its useful life in an environment where almost every country in the world, rather than just a handful of industrialised countries, has a stake in global trade (Keating 1996: 19-20).

On the ASEAN side, there were changes in attitude towards the multilateral trade forum. As mentioned, when the Uruguay Round was concluded in 1993, the main objective of APEC shifted to regional trade and investment liberalisation. The United States and Australia opted for organising a Leaders' Meeting to make members formally commit themselves to the liberalisation procedure which was to be decided. The formalisation, in another word institutionalisation, of APEC was clearly not considered a priority at the conception of the forum in 1989. However, backed by confidence in the management of their domestic economies, as well as a need to restructure their industries to compete with late comers in the region such as China and Vietnam,

the ASEAN countries accepted the offer. Malaysia was the last to come to terms with the formalisation of APEC. When the CUA was applied as the APEC measure for trade and investment liberalisation in Osaka in 1995, however, the “partial” formalisation of APEC was also accepted by Malaysia.⁴²

In sum, based on the emergence of common interests in maintaining and promoting international free trade and investment regimes, Australia and the ASEAN countries consulted more closely with each other from the latter half of the 1980s than ever before. This consultation was possible because both Australia and ASEAN started to move towards playing under common “rules of the game” in the global economy. Australia abandoned its protectionism and ASEAN became more enmeshed in the world economy, bringing the two closer together.

In actively involving itself in multilateral trade negotiations, the Australian government, led by Hawke and Keating, advocated middle power diplomacy. It seems that the essence of middle power diplomacy, that is to form coalitions of like-minded countries to gain stronger bargaining power, is very similar to what ASEAN demonstrated in dealing with Australia in the 1970s (ASEAN’s united stance for the ICAP issue is a good example). The Australian government also learned from Australia’s experiences in the relationship with ASEAN in the 1970s, and utilised this knowledge in multilateral fora a decade later.

4-2. Australia-ASEAN Relations into the Year 2000: Implications for APEC

The adverse effects of the economic crisis in East Asia from mid 1997, induced by massive capital flight by foreign investors and dramatic depreciation of currencies, had not yet greatly affected Australian industries.⁴³ By early 1998, however, as the Treasurer Peter Costello suggested in a public speech, there was still a possibility for “the current account to widen somewhat as a consequence of the external situation, particularly in relation to Asia” (Henderson

⁴²The Prime Minister of Malaysia, Mahathir, did not participate in the inaugural “informal” Leaders’ Meeting held in Blake Island, Washington, the United States in 1993. However, he joined the Meeting the next year held in Bogor, Indonesia, though he had some reservations about the meeting’s declaration (Bogor Declaration) that set a timetable to achieve free and open trade and investment within the region by 2010-2020.

1998).

From the beginning of the crisis, the Australian government (Liberal/National Coalition since March 1996) involved itself in IMF rescue packages for Thailand and Indonesia, with little domestic opposition. When the negotiations between Indonesia and the IMF on loan conditions intensified in early 1998, the Australian government was sympathetic to Indonesia, trying to play a mediating role.⁴⁴

A business-as-usual attitude by the Department of Foreign Affairs and Trade and Australian industries to the AFTA-CER Linkage issue since the crisis in East Asia is also worth mentioning. The original proposal on the issue was made by the then Thai Minister for Commerce, Supachai, in December 1993 and formal talks started in March 1995 when senior economic officials from ASEAN countries, Australia and New Zealand met in Jakarta. Subsequent to Supachai's proposal, frequent meetings at various levels of government and industry have been held to promote, as a start, the linkage of aspects such as product standards and conformance, customs operation and cooperation in services.

Just after the beginning of the economic crisis in ASEAN, the third ASEAN-CER Business Leaders' Meeting and Ministerial Consultations were held in October 1997, in Singapore and Kuala Lumpur respectively. In Australia, it seemed that, even during the East Asian economic crisis, the business community continued to play a central role in both promoting the AFTA-CER linkage and leading the government.⁴⁵ The Australian government evaluated the progress of the AFTA-CER Linkage issue very positively. It is expecting more results in the near future to expand Australia's economic opportunities in trade in agricultural, manufacturing and services by directly removing impediments to trade flows between AFTA and CER.⁴⁶

What does the economic crisis in East Asia and the response of the Australia government to it so far imply in the context of APEC?

⁴³ In the first 8 months of the financial year 1997-98 (from July 1997 to February 1998), Australia's total exports grew A\$ 8 billion, or 12.1%, over the same period in 1996-97. *The Australian*, 1 April 1998.

⁴⁴ See, for instance, related articles in *the Australian*, 21 and 28 February 1998.

⁴⁵ Interview, Vivienne Filling, Principal Advisor, the Metal Trade Industry Association, 13 November 1997 in Canberra.

⁴⁶ Interview, Peter Rennert, Manager, AFTA-CER Unit, Trade Strategy Section, DFAT, 10 November 1997 in

Stagnation in the APEC trade and investment liberalisation and facilitation process, and possibly the decline of APEC as a whole, might come if the ASEAN members severely hit by the crisis do not show signs of recovery in the mid term. This would possibly be at the beginning of the 21st century, and after the full implementation of current IMF conditions. A prolonged economic recession in the East Asian economies, including ASEAN, would be likely to make them reluctant to adopt more liberalisation. Though the target year for free and open trade and investment within the region for developing economies is 2020, and there is plenty of time left until then, developed countries like the United States might also lose interest in the multilateral liberalisation process under the APEC framework.

For Australia, too, prolonged recession of the East Asian economies would have serious effects. Australian government and industry would face a situation whereby they would have to rely on the US and EU export markets - markets where prospects have not been bright compared with East Asia (as seen in Figures 3, 4 and 5). Australia has come a long way towards the liberalisation and deregulation of its economy, and there is no way back to the old protectionism. Thus, it is more likely than not that Australia will keep trying to maintain and promote a favourable regional economic environment. As noted earlier, APEC is the most suited way to pursue this objective and Australia's commitment to promoting and strengthening the APEC framework will continue.

Looking from a different angle, if Australia was to lose its interests in the APEC trade and investment liberalisation process, such a development could well mean the virtual end of APEC. It is imaginable that, at some future time, other major players such as the United States, Canada, China and the ASEAN countries may also lose their interest in APEC. However, it is also important to note that the end of APEC in this way would not necessarily mean the end of Australia's seeking of Asian engagement. Economic interdependence between Australia and its northern neighbours has already grown to such a level that it cannot easily be abandoned.

5. Conclusion

This chapter focused on the development of Australia-ASEAN relations, from the Australian point of view, as an essential element of APEC. Southeast Asia has been important for Australia's foreign relations since the end of World War II but, for Australia, the importance of the region was initially and historically based mainly on political/security considerations under the Cold War framework. Successive Australian governments saw the region as a subject of developmental assistance to make it a bulwark against communism. The establishment of ASEAN in 1967 did not change the perception held by Australia. In 1973, the ALP, led by Whitlam, was elected to office for the first time in 23 years. The Whitlam government seemed relatively free from the traditional perception of Southeast Asia, as well as the world, and it tried to reshape Australia's foreign policy. However, its mismanagement of the domestic economy forced the government out of office, leaving the reorientation of Australian foreign policy incomplete.

Australia-ASEAN relations in the period between the mid 1970s and the early 1980s were filled with economic disputes. By this period, the ASEAN countries had developed their capacity to export labour intensive goods, particularly TCF, and kept demanding improved access to the Australian market. The Fraser government, which succeeded Whitlam, was incapable of meeting ASEAN demands because of its failure to understand the political meaning behind such demands. The government also failed to understand the need to dismantle Australia's traditional protectionism, to adjust the economy, and to diversify the range of goods for export away from a reliance upon primary product areas. The Fraser government chose to wait for another resource boom that never arrived.

After another massive deterioration of the terms of trade in the early 1980s, The Hawke government that succeeded Fraser in 1983 initiated reform of the domestic economy. Along with the liberalisation and deregulation of the financial market, protective measures for domestic manufacturing and services industries were removed according to schedules set in 1988 and 1991. To underpin the efforts made on the domestic front, the government actively committed itself to multilateral negotiations to pursue global free trade and investment. In the same period,

the ASEAN economies started to grow rapidly and became increasingly enmeshed in the world economy. ASEAN emerged as one of the prospective destinations for Australia's exports, particularly for its manufactures. For ASEAN, too, the maintenance and promotion of liberal trade and investment regimes became crucial.

Common interests between Australia and ASEAN emerged. The Australian government invited the ASEAN countries to join the Cairns Group and APEC as founding members. To do so, Australia advocated middle power diplomacy which was similar to the ASEAN way of regional cooperation and policy coordination. Even in the recent economic crisis in East Asia that, at the time of writing, had affected most of the ASEAN members, Australia's foreign policy behaviour towards the region remained unchanged. Australia was playing its part to revitalise the East Asian economies.

If economic recession in East Asia is prolonged, Australia may be forced to face the difficult situation of relying on the US and EU markets for its exports. These markets do not, however, offer the same growth prospects as those achieved in East Asia in recent years. Thus, it is likely that Australia will keep trying to maintain and promote a favourable economic environment for ASEAN and the region. So far, APEC has emerged as the most suited vehicle to pursue this objective. It is therefore likely that Australia's commitment to the APEC process will continue.

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