

House of Representatives, Monday 25 May 1998

COMMITTEES: Foreign Affairs, Defence and Trade Committee: Report

Mr BRERETON (Kingsford-Smith)(12.36 p.m.) —On behalf of the Joint Standing Committee on Foreign Affairs, Defence and Trade I present the committee's report on a seminar on the Asian currency crisis and its effect on Australia, entitled *The Asian currency crisis*, together with the minutes of proceedings.

Ordered that the report be printed.

Mr BRERETON —The report I am tabling today is a record of the proceedings of a seminar conducted by the Joint Standing Committee on Foreign Affairs, Defence and Trade in March this year. This seminar assembled some of the most authoritative speakers from across Australian government departments, business and academic fields to share their views on the origins, the regional economic and political ramifications and the likely effects on Australia of the Asian currency crisis.

Asia would probably prefer to forget 1997, but it was a year which will have long-term consequences. Much of the news was bad, but there was also some good news. The bad news was that the dramatic financial collapse, which began with the floating of the Thai baht in July 1997, gave rise to the deepest economic crisis since East Asia's economic boom began decades ago. The consequent economic and social damage will take billions of dollars from outside the region to repair. The reactions of governments, as they sought to meet the effects of the financial crisis, have seen marked political turmoil and, in some cases, social unrest with dramatic consequences, as we witnessed in Indonesia last week. The good news is that Asian governments have begun to confront the fact that far-reaching economic and political change is necessary if economic growth is to be restored. South Korea and Thailand responded to the economic crisis with a change of government and a new determination to undertake long-term and wide-ranging reforms. Closer to home, the departure of President Suharto has the potential to usher in a similar process of fundamental economic and political reform in Australia's nearest Asian neighbour.

Deputy Prime Minister Fischer, in opening the seminar, commented upon the Australian government's response to the Asian crisis, highlighting the contribution to the IMF assistance package by Australia to Thailand, South Korea and Indonesia. Australia's contribution to those packages enjoys strong bipartisan support. Labor has also expressed strong support for increased humanitarian aid—indeed, for a comprehensive international reconstruction effort; a mini-Marshall Plan—for Indonesia, which is likely to face a severe food shortage in coming months thanks to a combination of drought, economic collapse and civil unrest.

It is interesting to note that the prospects for Indonesia were covered in three of the seminar's presentations and, whilst the possible scenarios included the essence of what we have all witnessed in the past two weeks, it is fair to say that no-one was able to predict the rapid fall of President Suharto. We now, of course, face an uncertain and possibly tumultuous period in Indonesia as the new administration of President Habibie grapples with the enormous challenges of economic and political reform.

If the new Indonesian government cannot rise to these challenges, great as they are, it may well prove to be short lived. For our part, we will have to wait and see. One thing is clear, however, that is, without fundamental political reform—difficult and complex though it may be—international confidence in Indonesia is unlikely to be restored and the prospects for economic recovery will remain bleak indeed. Unless the new Indonesian government can move quickly to enhance real democratic participation in that country's political processes, Indonesia may yet face another bout of civil unrest and long-term economic and social

consequences of a very severe nature. The potential long-term implications for regional instability and security certainly should not be underestimated.

The effectiveness of regional forums such as ASEAN and APEC was one of the issues carefully considered during the seminar. On examination of the prospects for China, Japan, Taiwan and Singapore, it is evident that, regionally, nations are divided in their views as to what to do. Subsequently, ASEAN and APEC were seen as unlikely fora for addressing the core problems of the crisis. Whilst it can be argued in APEC's case that it is not designed to address financial issues, APEC was identified during the seminar as having the best prospects of any regional organisation to address the economics and the politics of the region. That it failed to exert any real influence during the crisis should not preclude its use in the future to provide a coordinated effort by the various regional agencies to assist countries in the region to set circumstances so as to avoid the same situation occurring again.

The major challenge for Australia will be to breathe some new life and purpose into APEC, to recapture some of the energy and the direction which characterised its formative years. The expansion of APEC, especially the admission of Russia, makes it all the more important that countries vitally engaged in the Asia-Pacific work to keep APEC focused on delivering outcomes of real benefit in terms of regional prosperity and security.

Without the commitment of countries such as Australia to push the regional agenda forward, APEC may well quietly decline in relevance and value to become just another international talking shop. This would very clearly be to the detriment of Australia's national interests and our regional influence, and we should be working hard to forestall such a possibility.

Australia will also have to think carefully about how we deal with new regional forums and processes in which there is no guaranteed place for ourselves. In this regard, Australia's continued exclusion from the Asia-Europe Summit Meeting, the ASEM process, is a very worrying precedent for our future regional engagement.

The committee, in reporting its views of the seminar, chose to keep its remarks brief. In doing so, the words of the individual speakers have been allowed to stand by themselves. While individually noteworthy, these presentations collectively provide a comprehensive overview of the social, economic and political impact of the crisis not just on Australia but also on regional nations.

In conclusion, can I thank the many members of the foreign affairs, academic, business and diplomatic communities who participated in the seminar, particularly the talented group of speakers who generously contributed their time to ensure its success through the quality of their presentations. I believe their efforts have contributed to the creation of a valuable reference source on the initial effects of the Asian currency crisis on Australia. I commend the report to the House. (Time expired)

Mr TAYLOR (Groom)(12.41 p.m.) —I want to provide some strong bipartisan support to what the shadow foreign affairs spokesman, the member for Kingsford-Smith (Mr Brereton), has indicated in his comments on the The Asian currency crisis report. I will come back to some comments about APEC in a moment. At the outset, let me congratulate you, Mr Speaker, in terms of this report because in your previous role as Chairman of the Joint Standing Committee on Foreign Affairs, Defence and Trade it was you who agreed that we would get best mileage in the foreign affairs, defence and trade area out of a series of seminars. This is yet another seminar, a very successful one, following on the PNG, ANZUS and Commonwealth seminars. Whilst the importance of joint committee reports should not be belittled, I think we get a lot more out of some of these seminars. This seminar is no exception to that initiative.

Let me say at the outset that this crisis not only is an Asian crisis but also has the potential to be an international crisis. If the problem is not stemmed in East Asia, then it has the potential to move into North Asia—if, indeed, it has not already in terms of some of the Japanese

banks. Then it also has the potential to move across the Pacific with disastrous effects on the Americas and all that that would bring with a destabilisation of international markets—all the sorts of things that we would not want.

This seminar reiterates a point that was made in a previous report by this committee entitled *Australia and ASEAN: Managing Change*, which talked at some length about the contagion effect, that is, the contagion effect is something which should be stemmed. I would like to quote very briefly from that report, because it does reinforce what this seminar revealed: While the regional crisis has been far more severe than earlier predicted, the prospects for a return to robust growth in the region would appear to be strong. As a number of commentators have pointed out, the fundamental features of Asia's solid growth in the recent past have not changed.

It goes on:

These fundamentals provide part of the foundation needed to sustain economic development and expansion. The other, more problematic, part has to be provided by the institutions ASEAN members have (or have yet to) put in place, particularly with regard to economic administration and regulation—

a point that the honourable member for Kingsford-Smith raised earlier. To continue:

The committee recognises that while some countries in the region, particularly Singapore and (to a lesser extent) Malaysia have significantly improved their institutional infrastructure over the past twenty years, other countries have allowed institutional developments to lag behind economic expansion.

The report then goes on to quote the Far Eastern Economic Review :

What the region needs is to put in place a political system that places values on accountability and transparency, that controls corruption and sets up an administrative and regulatory system that is suited to the age of globalization.

I am pleased to pick up the point about APEC that the opposition spokesman has raised.

Members in this place may not be aware that last night the Treasurer (Mr Costello) announced a number of initiatives in this area while attending the finance ministers meeting in Canada.

He has announced some very substantial assistance from Australia in terms of prudential control, prudential advice and prudential education to other countries, and that has to be a step forward.

He also announced that Australia would take a prominent role in a new APEC finance ministers' collaborative initiative to improve corporate governance. To that end, Australia will host a seminar oriented to bring business people together to identify governance reform needs. He said, 'In the light of what we find through these early processes, we will identify ways to develop practical mutual assistance later in the life of the project.' He also made comment about increasing dialogue on the problem. He went on to say that there was widespread agreement at this meeting that the reform programs—(Time expired)

Mrs GALLUS (Hindmarsh)(12.46 p.m.) —In discussing this report today, I would like to mention some of the speakers—hopefully, all of the speakers—who contributed to the seminar, because the information they gave us and their point of view was extremely valuable to the committee and, I believe, to all others of those who attended. I would like to acknowledge Dr Peter Brain, Professor David Lim, Dr Heather Smith, Dr Ross McLeod, Pamela Fayle, Max Walsh, Alan Dupont, Alan Oxley, Paul Kelly, Chris Richardson and Bill Shields. I trust that I have not left anybody out of that list as I do not think it is printed in the beginning of the report. We have all the attendees but not the speakers, and I notice that the member for Chifley (Mr Price) across the chamber is nodding at that.

What came out of that seminar that was interesting to me was the question of what happened. Prior to June last year countries all over the world were praising the Asian tigers and here at home we were perhaps castigating ourselves a little that we were not quite as good as the

Asian tigers in looking at the type of growth we had achieved over the last decade. They were certainly put up as countries to be emulated. Then almost overnight we saw these countries go into a financial crises. It is worth while having a look at what came out of the seminar as to what precipitated and caused such a change around and why the world was not already aware that this was going to be likely.

If we look at causes, we can go back, first of all, to the 1995 devaluation in China, which made the other countries in the region less competitive than they had been. That was a minor trigger that then reacted on economies that had fundamental problems. First of all, the Thai economy was overheating. It had brought in a lot of capital. There was strong inflationary pressure. There was concern overseas at the rising current account deficit and the bad debts. With that, there was an outflow of capital from Thailand which precipitated the Thai government deciding to float the Thai baht.

Instead of the effect that the Thai government had expected, which was to halt the outflow of capital, this of course brought a massive outflow of capital from Thailand. At the same time it caused the Western countries that had supplied this short-term capital to look at the other countries in the region to see that they also had problems, problems that they had been aware of but that, in what has been called casino capitalism, they had decided to ignore, because the profit was there in Asia and because partly the currencies were tied to the American dollar and that was the security that foreign investors had.

The other countries were also forced to float their currencies. As a result, there was a mirroring of what happened in Thailand. The foreign investors panicked, removed their money and, as the currencies fell, more people and institutions took their investment out of these countries and we saw these massive devaluations occur. At the present, three of the countries—Thailand, Korea and Malaysia—have devalued their currencies by about a third. They are all very similar—34 per cent, 35 per cent, and 36 per cent. That will make them more competitive, especially with the changes they have made in their economy.

Of course the big concern in the region and one that was suggested in the seminar but never actually broached as a possibility was what is happening in Indonesia. We have seen Indonesia's currency drop 75 per cent as a result of the capital outflows. But it comes back to the fundamental situation in Indonesia, which was not only bad debts and overgearing, which the other countries shared, but also an excess of crony capitalism. That, together with a fundamental political concern that was happening in Indonesia at the same time, caused this rolling problem that we see in that country. Unfortunately, I do not have time to go into the lessons that this bears for Australia, but let me just say that it does stress the importance of having our fundamentals in order. (Time expired)

Dr SOUTHCOTT (Boothby)(12.51 p.m.) —In speaking on the seminar which we held into the Asian currency crisis and its effect on Australia, I would like to mainly focus on the effect that it will have in Australia. At present, economic growth in Australia is quite strong. If you say that the currency crisis could have come at any time, perhaps now is a fortuitous time. Although the currency crisis has taken one per cent off Australia's GDP growth, private sector demand still grew strongly last year. That is being supported by low inflation, low interest rates, continuing growth in housing and retail and also continuing growth in job creation. Since this government came to office, there have been 260,000 jobs created.

The Asian downturn will affect our exports, especially in tourism, which has already been affected, and also some other services. However, exports are continuing to grow to markets like Europe, the US and even established markets like New Zealand. That will offset the decrease in exports to some extent. The impact on the Australian dollar, as other speakers have mentioned, has been quite mixed. While there has been a devaluation of something like 18 per cent against the US dollar, there has also been an appreciation against currencies like the won and the rupiah. That means that, looking at the trade weighted index, it has been hard

to get the mix right in terms of what the impact will be for inflation, but overall the Reserve Bank has said that the import weighted TWI has depreciated by about eight per cent. The stronger growth in the domestic economy and also the slower growth in exports will see an increase in the current account deficit over the next year. One of the important points to make is that the increase in the current account deficit that we are going to see over the next year is different to the increases we saw in 1986 and 1989, which were largely fuelled by the domestic economy galloping away, and the response of the previous Labor government was to increase interest rates to 18 or 19 per cent. The difference now is that, while the domestic economy is strong, the current account deficit is due not to a rampant domestic economy but to external circumstances.

We should recognise that Australia, as well as Singapore, has largely been seen as a safe haven during the Asian currency crisis. If you look at the things that the government has been doing, all of them have been a message to financial markets that Australia is very much moving in the right direction. At present we have control of inflation. The government has undertaken the program of fiscal consolidation where we have moved from a \$10.5 billion budget deficit to a \$2.7 billion budget surplus. We have greater competition now in our labour and financial markets. We are just beginning a process of corporate law reform to ensure sound corporate governance.

We also had the Campbell inquiry in the early 1980s and more recently the Wallis inquiry, which are going to bring about sound prudential regulation in banks and non-banking financial institutions and transparency in financial reporting.

We should think about some of the goals that Australia should have in this area. Australians now have the potential to be the greatest owners of shares in the world. Apparently we are No. 2. If Telstra is privatised we could have the highest number of Australians directly involved in the share market. The Wallis reforms, the process of corporate law reform and addressing issues like stamp duty and financial institutions duty and the BAD tax should be able to give Australia the ability to become the No. 2 financial centre in the Asia-Pacific, after Tokyo.

Moving to some of the comments that were made during the seminar which relate to the budget repair job that this government has done, Max Walsh made the comment:

I have no doubt that . . . we would have come under greater pressure had we been running a larger fiscal deficit than we have been running. I think that is without any doubt.

He is referring to the pressure that might have come on the Australian dollar. Chris Richardson's comment was:

The 1996-7 budget and the considerable tightening that it saw at the time did help fireproof Australia against the financial market contagion.

I have talked about the current account. There is one other issue that I think needs to be addressed and that is the issue of industry policy. The Australian Labor Party has based its industry policy on the interventionist MITI model of Japan. (Time expired)

Mr PRICE (Chifley)(12.56 p.m.) —I am pleased to firstly acknowledge the contribution of the former Chairman of the Joint Standing Committee on Foreign Affairs, Defence and Trade, as my friend did opposite, in developing the role of seminars as a useful adjunct, I believe, to committee inquiries. I certainly believe that this seminar was perhaps amongst the more important ones that the joint committee has held.

It is funny how two people can go to a seminar and perhaps reach different conclusions on the impact of the Asian currency crisis. I must say that my response was that yes, Australia is doing relatively well as far as the impact of the Asian currency crisis is concerned but we are far from being fireproofed from it. As other speakers have pointed out, it was an attack on the Thai baht back in July 1997 that really started the Asian meltdown. Of course, the three countries that have been so badly affected have been Thailand, South Korea and Indonesia.

I think one of the important lessons I got out of the seminar was that these economies, firstly, are going to take some time to readjust. The way they are going to get out of their particular problems is certainly through some structural changes in the economy but most importantly through exports. So Australia is in an important position to the extent to which we allow these economies to export into Australia. The critical economy is, of course, the United States of America. Given the protectionist nature of Congress over there, it is a bit of a worry whether or not these countries are going to be sufficiently able to export into the United States to manage their way out of the current crisis.

Another member mentioned the devaluation of the Chinese currency. I think the jury is out still as to whether or not China itself will at some point devalue its currency. Should it do that, of course, it will place enormous pressure—

Mr DEPUTY SPEAKER (Mr Nehl) —Order! The time allotted for statements on this report has expired. Does the member for Kingsford-Smith wish to move a motion in connection with the report to enable it to be debated on a future occasion?

Mr BRERETON (Kingsford-Smith) —I move:

That the House take note of the report.

I seek leave to continue my remarks later.

Leave granted.

Mr DEPUTY SPEAKER —In accordance with standing order 102B, the debate is adjourned. The resumption of the debate will be made an order of the day for the next sitting and the member will have leave to continue speaking when the debate is resumed.