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An Approach towards
Australia's Foreign Economic Policy Making Process

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Introduction

The APEC process entered new stage after the Bogor Meeting in 1994. The declaration to liberalise individual members' trade and investment settings by 2010 for developed economies and by 2020 for developing ones made the process not only for exchanging information as APEC used to be, but also for negotiations to establish some kind of concrete institutional framework, even it might be a loose one. From then on, the need to adjust each member's foreign economic policy has emerged as a very important factor in the APEC process.

Looking back the consultation that has been made for trade and investment liberalisation in recent years, it became clear that there was not a definite consensus among the members on matters such as the actual way to liberalise each member's economy and the application of their liberalisation efforts to outsiders. It is widely known that there are differences in concepts and opinions on these matters between developed and developing economies in the region, however, it is not necessarily that the same views are shared among all the developed and/or developing economies. The Osaka Meeting in 1995 was useful in terms of declaring that the liberalisation efforts include all the sectors without exception. However, it did not quite solve the problems above.

Moreover, the Osaka Meeting decided that members must prepare their action plans to liberalise their economies and present them to the Manila Meeting in December 1996. The plans are to be reviewed periodically by all the members and, if necessary, members will be asked to modify the contents of their plans. The point here is that there is no consensus, again, on how to review the plans. There is no agreed standard to judge which plan is good and which is not.

Taking these situation into account, the liberalisation process will likely be accompanied by difficulties and the negotiation will take a long time. Because of the much talked about diversity among the APEC members and the fact that most of them are still in their developing stages, Powers like the United States, Japan (and China) should not try to control the process. If those Powers try to push their initiatives too strongly, developing economies may be forced to drop out, then APEC would be just a collection of ordinary bilateral trade and investment agreements between developed economies. The opportunity to

integrate the most dynamic economies in the world would be lost. Thus, initiatives from “middle power”¹ members, such as the ASEAN countries, Australia, Korea and New Zealand, and the promotion of those initiatives by all the members must be taken as one of the main measures in the process.

To analyse the factors that influence members’, especially middle powers’, foreign economic policy is important in terms of proceeding smoother APEC process. In this paper, Australia will be taken as a case since it has been an active force in the process from the very beginning.

When Bob Hawke, a former Prime Minister of Australia, visited Korea in January 1989, he proposed the creation of an inter-governmental forum within the Asia Pacific region to discuss economic cooperation. During the period from January to December 1989 when the inaugural Ministerial Meeting of APEC took place in Canberra, the Australian government, especially the Department of Foreign Affairs and Trade, worked tirelessly to promote the idea and persuade would-be members to join the new organisation. At the time, some of the ASEAN countries were cautious of the idea fearing that the new organisation might threaten ASEAN’s existence. The Australian government sent the Foreign Minister and some of the highest officials from the Department to the ASEAN countries and assured them that: all the members of APEC, if established, would recognise that it would be a forum consisting of countries with different social and political systems and levels of economic development; APEC would not devalue the meaning of any regional organisations that already existed in the area; and, any APEC decisions would be made on a consensus basis. It was not by accident that the principles of APEC activities confirmed at the first Ministerial Meeting included each of these accords.

It is clear that Australia made a great effort to start the APEC process. It also seems that, after the establishment of APEC, Australia has been trying to lead the process as much as it can. In April 1992, Prime Minister Paul Keating revealed his idea of setting up a leaders’ meeting within the APEC framework. Although the other members were not at first particularly

¹ The definition of a “middle power” is not particularly clear, however. It seems that the best way to define the term is to look at how a country behaves in cases of international cooperation and conflicts. See

interested in his idea, an unofficial Leaders Meeting took place about one and half years later in Seattle thanks to an initiative from the US President, Bill Clinton. In 1995, Australia has again been active in promoting the Bogor Declaration.

Australia's foreign economic policy changed during the 1980s, especially after the ALP gained power in 1983. This was a logical consequence of domestic economic reform based on minimal government intervention in the market place, and was stimulated by the sharp deterioration of Australia's terms of trade after the second oil crisis in 1979.

Changes in the political and economic situation of countries in the region promoted re-orientation of Australia's foreign economic policy toward the Asia Pacific economy. Since the 1960s, the economies of most East Asian countries have experienced steady growth. Japan was first, by the 1980s, its GDP had become one of the world's largest. Korea, Taiwan, Hong Kong and Singapore followed the Japanese path, and developed their economies mainly by promoting exports of manufactured goods. Since the latter half of the 1980s, the pace of growth in several Southeast Asian countries, such as Malaysia, Thailand and Indonesia, has accelerated.² In short, East Asian countries have been providing Australia with investment and export opportunities for the past 30 years.³

Until the 1970s, Australia enjoyed strong trade growth based on traditional exports of primary commodities to rapidly developing East Asian countries (especially Japan). The growth of the domestic economy during long post-war boom period relied on the export growth of primary commodities and redistribution of income to other sectors. Australia had traditionally adopted a policy of protection, often referred to as "all-around protection"

Cooper and Higgott (1990: 10), Evans and Grant (1991: 322-6), Fox (1977) and Holbraad (1984).

² In 1988, 1989 and 1990, Thailand's real GDP grew at a rate of 13.2%, 12% and 10% respectively. In the same three years, Malaysia's and Indonesia's real GDP also grew rapidly: at a rate of 8.9%, 8.7% and 9.8% in the case of Malaysia and 5.8%, 7.5% and 7.4% in the case of Indonesia (DFAT and AUSTRADE 1992:16).

³ The share of Australia's total exports to Northeast Asia (China, Hong Kong, Japan and Korea) and ASEAN increased from 29.3% (Northeast Asia 25%, ASEAN 4.3%) in 1965 to 51.1% (Northeast Asia 41.8%,

(Castles 1988:144), which was designed to shelter the country's domestic manufacturing and services sectors from competition. In protecting these sectors from imports, the Australian government was effectively discriminating against much more competitive industries like agriculture and mining. By the 1980s, it was realised that creating export opportunities for primary commodities alone would not generate enough income to provide Australia's increasing population with a rising standard of living (Garnaut 1989:205). The country needed policy to accommodate competitiveness in the manufacturing and services sectors and promote these sectors' exports.⁴

Early attempts to reduce the degree of protection by reducing tariffs had been made during the 1970s. The main motive of tariff reduction, however, was to reduce the price of imports to counter inflationary pressure. When recession hit Australia's major export destinations, such as Japan and the United States, in the mid 1970s and thus Australia's trade balance worsened, attempts at tariff liberalisation were halted.

This paper tries to examine the major factors of Australia's foreign economic policy change since the 1980s. The factors can be separated as international and domestic for convenience, though they are interactive. How the long term change in international economic environment has influenced Australia's domestic and foreign economic policy will be explained first, including its active involvement in the APEC process. Next, this paper seeks to examine why the major shift in foreign economic policy took place in the 1980s under the ALP government, how change was implemented and why pressure from traditional interest groups was not strong enough to delay or stop the change.

ASEAN 9.3%) in 1988. During the same period, the share of imports from these countries grew from 15.7% (11.6% and 4.1%) to 36.9% (31% and 5.9%) (Garnaut 1989:72).

⁴ In 1989, the Hughes Committee reported that Australia's merchandise exports were about one-third lower in proportion to output than they would be in a normally internationally-oriented economy. See Hughes *et al.* (1989).

International Economic Environment and Australia's Foreign Economic Policy Orientation

Changes in International Economic Environment and Australia's Policy Change

To understand why the Australian government is expecting positive results from the APEC trade and investment liberalisation process, the traditional Australian policy of protection and the drastic changes in policy since the 1980s should first be understood.

The protection of domestic industry in Australia is a deeply entrenched ideal. Before federation in 1901, Australia was divided into six autonomous Dominions⁵. With federation, the politics of “domestic defence” (Castles 1988:91) emerged as an exercise in nation-building out of those Dominions. “The nation was founded not in war, revolution or national assertion, but by practical men striving for income, justice employment and security” (Kelly 1992:1). It was natural, then, that the protection of citizens' everyday lives became a government priority. According to Castles, the values institutionalised by government were the protection of manufacturing industry through tariffs and other trade restrictions, the conciliation and arbitration of industrial disputes, the control of immigration and a residual system of income maintenance for those outside the labour market (Castles 1988:93). Kelly (1992:2-13) referred to them as “Australian Settlement” characterised by White Australia, Industry Protection, Wage Arbitration, State Paternalism and Imperial Benevolence, but what Castles and Kelly describe is in fact the same phenomenon.

The tendency for protectionism went further when World War I broke out. Imports of manufactured goods from the United Kingdom, the biggest trade partner by far at the time, was reduced significantly and the government promoted “import substitution”. By the middle of 1920s, Australia had become one of the countries with the highest level of tariffs on manufactured goods.⁶ Under this protective umbrella, domestic industries, such as textiles,

⁵ For example, the Dominion of New South Wales preferred relatively free trade policy to protection, while Victoria preferred vice versa. Also, dominions applied tariffs to imports from each other.

⁶ By 1925, Australia's average tariff rate on manufactured goods had reached 27%. United States was the

cloths, footwear, food processing, electrical appliances and steel, developed and increased their production. The costs of protection, of course, were financed by the competitive sectors of mining and agriculture.

The Australian manufacturing industry has always relied on foreign capital. Foreign manufacturers, who were denied access to Australian market by protectionist measures, invested in Australia to gain access to the domestic market. The resulting manufacturing industry tended to produce goods solely for the domestic market, resulting in few incentives for R&D and expansion into foreign markets. This economic structure remained unchanged until the 1980s.

Even though Australia's protection policy was introduced shortly after federation and supported over the years by vested interests in government and interest groups, in the post-war period, many academics in particular, including Corden, Arndt, Gruen, Crawford, Drysdale and Garnaut have opposed protection of the domestic manufacturing industry. Corden argued as early as 1958 for abolishing the import quota system and introducing a uniform and low tariff rate on all imports,⁷ writing:

“When a firm is not doing well, instead of being forced to reduce its cost or improve its product, it has the more fruitful avenue open to it of stopping or hindering its competition. The energies which might better go into competing on an economic basis are put into pressing for higher protection” (Corden 1958:340).

The first move from within the government to re-organise protection policy came from the Tariff Board (later called the Industries Assistance Commission and now known as the Industry Commission) in the latter half of the 1960s. Initially, the Board's main role was to

only country that had higher average tariff rate than Australia at the time with 37%. Other rates of major countries were: Japan 13%; France 21%; Germany 20%; Italy 22%; and Canada 23% (Anderson and Garnaut 1987:7).

handle requests from manufacturers for rises in tariffs, and to advise government, after research and consideration, how far protection on particular products should be increased. In 1967, however, the Board voluntarily began a systematic review of tariffs classifying manufacturing industries into three categories: excessively protected, moderately protected and less protected than others. On the basis of three classifications, the Board intended to advise government to reduce the tariffs of excessively protected industries as the first step towards tariff reform.⁸ Although the reform was supported by primary industry, such as wool and mining, that had been discriminated against for many years, and even by members of the Liberal Party which was then in power, opposition from manufacturers' organisations, some sections of the government (especially the Department of Trade and Industry) and trade unions was vociferous. As a result, tariff reduction had to wait until 1974, when the ALP gained power for the first time in 23 years.

Almost immediately after the ALP won the federal election in December 1972, Prime Minister Whitlam re-organised the Tariff Board as the Industries Assistance Commission and let them have the new role of advising the government how resources should be distributed efficiently to realise the benefit of both producers and consumers (Banks 1992:5). In international relations area, Whitlam emphasised the importance of the Asia Pacific region and of diversifying the export market for Australian products. Whitlam even proposed the creation of a regional consultative forum in the region.⁹ Though this shift in foreign policy by the ALP government was possible only because of a prior policy change by the United

⁷ Corden suggested gradually replacing import restrictions with tariffs, then establishing a standard tariff rate for all imports. The standard tariff rate could be varied according to the balance of payment situation. Corden based his suggestion on a fixed exchange rate.

⁸ The re-orientation of the Tariff Board at the time is closely described by the then Chairman G. Rattigan (Rattigan 1986).

⁹ The regional economic cooperation plan 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 its aims and to invite participation (on a visit to Indonesia a year earlier he met President Suharto). 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).

States in the region (the Guam Doctrine in 1969 and diplomatic initiatives to normalise relations with China in the early 1970s), it was a clear departure from the foreign policy of the previous Liberal/Country Party coalition government.¹⁰

Accompanying the resources boom in the early 1970s, Australia recorded a large current account surplus in 1972/73 and the Australian currency appreciated 18% against the US dollar by 1974. The incoming ALP government wanted to encourage imports to counter inflationary conditions, and in July 1974, the Whitlam government reduced overall tariffs by 25%. It was said that this liberalisation measure was a result not of external pressures, but rather of internal factors such as advice from key ministerial advisers and input from the Industries Assistance Commission (Charles and Farrell 1975:95). This indicates that the Whitlam government was relatively free from the pressure of traditional interest groups compared with the Liberal/Country government.¹¹ However, the Whitlam 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 European Community were pushed into recession by the first oil crisis. Earnings from exports suffered massively, the inflation rate rose and the government had to squeeze money supply.¹² The timing of the tariff

¹⁰ Bull (1975:31) pointed out that it was doubtful if the Whitlam government's basic perceptions 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 Third World countries. Bull was correct in that Whitlam himself did not argue that Australia's traditional interests and obligations had changed. See Hyde (1978).

¹¹ Hogan (1974:20-1) argued that the government's longer term objective in encouraging imports might have been the gradual reduction of labour-intensive industries and the re-location of these industries to developing countries, in other words, the restructuring of the Australian economy.

¹² 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 created a desire for increased wages and encouraged the government to introduce social reform, larger welfare expenditure, and a higher social wages. The Consumer Price Index rose to 13.1% 1973/74 and then to 16.7% in 1974/75; government expenditure rose 46% and 22.3% in 1974/75 and 1975/76 respectively. The budget deficit rose to over 4% of GDP. See Dyster and Meredith (1990:269).

reform worsened the domestic economic situation. Opposition from traditional interest groups returned, and the tariff reform process was stopped, at least for the time being.

After another massive deterioration of the terms of trade in the first half of the 1980s, the ALP, which was re-elected to government in 1983 after eight years in opposition, initiated domestic economic reform. In the same year that it was elected, the government surrendered official control of the exchange rate, deregulated interest rates and allowed the entry of foreign banks. By the end of 1988, the exchange rate had depreciated by 24% to the level prevailing at the beginning of the decade (Keating and Dixon 1989). The depreciation of the currency was expected to result in an increase in exports and a decrease in the current account deficit and foreign debt, but it did not have this effect immediately. In fact, the economic situation worsened after three years of strong recovery. The current account deficit rose to around 4.5% of GDP in 1986 and foreign debt was still increasing. In May 1986, Paul Keating, then Treasurer, stated:

“We must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in if this government cannot get the adjustment, get manufacturing going again and keep moderate wage outcomes and a sensible economic policy then Australia is basically done for. We will just end up being a third rate economy a banana republic” (quoted in Kelly 1992:196).

Extensive overseas borrowing directed towards financing mineral processing and electricity generation during another resources boom and a brief recovery period of the early 1980s, 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. This time, the Hawke led government realised that Australia could no longer sustain its traditional economic structure of “sustaining the cost of protection by the export earnings from the mining and agriculture sectors”. The federal and state governments selected industries like mineral resource processing, communications, computers, biotechnology, energy development and promoted investment in them. Plans for privatisation of industries which were

formerly dominated by state enterprises, such as aviation (domestic and international), banking and telecommunications, were announced.

Furthermore, to increase competitiveness in manufacturing, the government decided to expose industries to severe competition in the domestic and world markets and to phase out the protection they had long enjoyed. In 1989, the government announced a concrete schedule of tariff reduction. According to the schedule: all tariff rates, except for automobiles, automobile parts, textile, clothing and footwear (TCF), are to be reduced to 5% by 1996; for TCF, the tariff rates are to be lowered to 25% by 2000; for automobile and parts, to 15% by 2000; and, the average nominal rate of assistance will be lowered to 3% and the average real rate of assistance to 5% by the same year (Stanford 1992). The reduction in protection was announced in a period when the current account deficit was still high and it was made unilaterally.

It can be seen that the economic reform started in the 1980s is the first and most significant redirection of economic policies for the Australian economy since federation. It is not hard to imagine that changing policies that were kept almost untouched for eight decades is a challenging task. However, the ongoing reform has been a long pending question and it seems that the government will not retreat this time.

Australia's Foreign Policy Behaviour since the 1980s and the Meaning of APEC

Since embarking on domestic economic reform, Australia's foreign policy behaviour has changed dramatically. The continued success of those policies to adjust Australia's domestic economic structure, depend in part on the maintenance of the global free trading system. Australia's domestic market is still too small to sustain the high standard of living which was already achieved, even if the domestic manufacturing industry gained competitiveness in the near future and substituted imports as planned. It is vital for Australia that the newly competitive goods and services, in addition to its traditional exports, are guaranteed to be traded freely across the borders. However, the prospect of maintaining a free trade system seemed to decline during the 1980s. The Uruguay Round was deadlocked, the United States and Canada, then Mexico, formed a free trade area and the EC created a single market and

became the EU. Because of these moves to form potentially protectionist regional free trade areas, it was natural for Australia to involve itself actively in the effort of maintaining free trade.

Australia needed to find the most effective way to achieve this objective. It had learned when it failed to add agriculture to the GATT agenda at the GATT ministerial meeting in 1982, that a middle power like Australia cannot achieve its goals alone (Cooper and Higgott 1990:18). Therefore, over the last decade, Australia has been seeking to form coalitions of like-minded countries to achieve its objective of securing and promoting a free and open trade regime in the region.¹³ The formation of meaningful coalitions can strengthen the bargaining power of member countries in multinational negotiations, as long as the coalition sticks together. It is also true that these kinds of coalitions can be fragile when differences in member countries' interests come to the surface.

The establishment of the Cairns Group¹⁴ in 1986 was one successful attempt at coalition building. The Cairns Group was successful not only in finally having agriculture placed on the agenda for negotiation in the Uruguay Round, but also in exerting effective pressure on this issue until the Round was concluded. Another success was the APEC initiative in 1989. APEC was also seen as a way to counter the protectionist tendencies in North America and Europe. For Australia, there were two primary reasons why it had to be APEC that promoted freer trade and investment. First, Australia, even if it wanted, had no prospect of joining NAFTA or the EC. Second, Asian economies were increasingly important as trade partners for Australia. Until the 1960s, Australia's main trade partner had been the United Kingdom followed by the United States and other European countries. However, Japan emerged as the largest export destination in the latter half of the 1960s and has remained so ever since. Following Japan's track, Hong Kong, Korea, Singapore and Taiwan started their rapid

¹³ Australia's attempts to form coalitions on international issues were not limited to economic matters. Two examples are the Australia Group for promoting the Chemical Weapons Convention, and the United Nations Peace Plan for Cambodia.

¹⁴ The Cairns Group was formed in 1986 by 14 countries who claimed not having government subsidies on agricultural exports, for the purpose of including agriculture in the Uruguay Round agenda. The members include Argentina, Australia, Brasil, Canada, Hangary, Indonesia, New Zealand and Thailand, and their aggregate value of agricultural exports occupies about one third of the world total.

industrialisation and economic growth, absorbing imports from Australia. More recently, the ASEAN countries have followed a similar path.

Figure 1 shows the trend of the Australia's merchandise trade in the last decade. In 1983-84, Australia's exports to the APEC economies already occupied 67.5% of the total exports and its imports from them occupied 64.6% of the total. These figures increased to 76% for exports and 69.5% for imports in ten years. Both Australia's exports and imports to/from APEC tripled in the same period. Moreover, Australia enjoys a trade surplus with most of the APEC economies, except the United States. In 1993-94, the sum of the trade surplus Australia recorded with Japan, New Zealand, NIEs and ASEAN was \$A 11,308 millions which more than offset the trade deficits of \$A 9,170 millions with the United States. The importance of the APEC economies for Australia is the same in services trade. In 1992-93, Australia's services exports to them reached 66% of the total exports and imports reached 52% of the total imports.

More importantly for the Australian government, the domestic manufacturing industry increased its competitiveness. Figure 2 shows Australia's manufactures exports to the APEC economies for the last five years. The figure indicates the importance of the United States, Japan, New Zealand, NIEs and ASEAN as destinations of Australia's manufactures exports. However, it seems that the United States and Japan are rather stagnated markets in comparison to growing markets of New Zealand, the NIEs and ASEAN. Though the United States and Japan remain as important markets, the manufactures exports to New Zealand, NIEs and ASEAN grew 56%, 113% and 110% respectively during the last five years. China looks like another promising destination for Australia's manufactures exports if its "open policy" is maintained. In 1993-94, the value of exports to China was just over \$A 500 millions, but its growth rate in the last several years has been significant.

In summary, the economic transactions of Australia with the Asia Pacific region, especially with the Northeast and Southeast Asian economies, has grown dramatically since the 1960s. To underpin the ongoing domestic economic reform and the resulting export growth, Australia needs to promote and help maintain free trade and investment. Though the countries in the region, except for NAFTA, have been liberalising their economies unilaterally and voluntarily, APEC can promote the region-wide goal of trade and investment liberalisation.

At the moment, the Australia-New Zealand Closer Economic Relations Agreement (CER) is the only comprehensive free trade agreement that Australia has made. It is obvious that CER alone does not fulfill Australia's needs. Thus, the recent tendency of APEC becoming more than a communications forum, like the creation of "unofficial" but annual Leaders' Meeting, the Bogor Declaration and the Osaka Action Agenda, is very welcome to the Australian government.

Furthermore, APEC is a convenient vehicle to tie the members together. As mentioned earlier, Australia's main economic transactions partners are located both sides of the Pacific. Australia cannot afford to have North America and Northeast and Southeast Asia divided as economic blocs. APEC provides a great opportunity to promote economic liberalisation and tie members as one region at the same time.

Changes in Foreign Economic Policy and the Decision Making Process

The second focus of the factors that has been influencing Australia's foreign economic policy and its change is in the domestic decision making process.

Normally, foreign policy decisions are implemented without the need to enact or amend a law, or for any form of legislation or ratification by Parliament. Thus the main actors in the decision making process are the Prime Minister, the Foreign Minister, other ministers depending on the issue, ministers' policy advisers and senior bureaucrats. Parliament's role is usually confined to questioning and commenting on policy after it has been initiated. Thus, examination of the foreign policy decision making process in this paper focuses on the executive branch of government.

To examine why and how changes in Australia's foreign economic policy came about in the 1980s, three closely interrelated aspects need to be analysed. The first of three is the traditional link between interest groups and government, as policy change inevitably has an impact on those relationships. The second for attention is politics within the ALP. To ensure policy continuity, the key cabinet posts must be occupied by reform-minded politicians, especially when traditional, institutionalised values are being abandoned. The third aspect for

examination is structural reform of the bureaucracy at departmental level as well as major changes within departments. As the job of government nowadays is tremendously diversified, each department needs to have specialised and detailed information to fulfil its tasks. As a result, departments possess great expertise and specialist knowledge in their area of competence. This is of course true in the foreign economic policy area, and each department tends to establish a persistent line on issues within its jurisdiction (Smith 1992: 21). Structural reform of the bureaucracy implies that policy could well change depending on the influence of the reformed department (division or section).

Changes in Interest Groups' Attitudes and their Relationship with Government

Early literature on international relations and foreign policy decision making emphasised a “rational actor” (leader) who decided policies by choosing rationally among available options. The early realist theory relied on well-trained leaders and diplomats to realise national interests in the area of foreign policy decision making.¹⁵ By the late 1950s, the close relationship between domestic politics and foreign policy decision making received greater recognition from theorists. Rosenau (1969) argued that the “linkage” between domestic and international politics should be closely analysed in research on the foreign policy decision making, and Haas (1958) emphasised the role of interest groups in the process of regional integration in Europe. Allison (1971) said that the “rational actor” model was not adequate to a full understanding of the US approach to the Cuban missile crisis. Lindblom (1977) pointed out that, because of its significance to the economy, private business tends to enjoy privileged power over policy making. More recently, Putnam (1988) argued through his two-level game theory that analysts should look at state structures such as political parties, interest groups, elections etc., because leaders make decisions not only to pursue national interests but also to satisfy domestic interest groups, which form the basis of their political support.

¹⁵ Morgenthau (1948:4-17) stated six principles of political realism. He wrote that only the workman-like manipulation of diplomacy in a realist way could achieve the national interest (defined as power) and the potential transformation of international politics.

Gallagher (1988:124) stated that Australia's policy decisions on protection were motivated chiefly by intense lobbying from domestic interests and rarely by foreign economic considerations. If this is so, there has clearly been a big change in traditional domestic interests since 1983. Alternatively, during the 1980s, the influence of certain domestic interest groups over the decision making process has declined and decision maker(s) have become relatively free from traditional domestic pressures.

The implementation of new foreign economic policy by the ALP government was associated with a change in the attitude of traditional interest groups toward protection. The Australian Council of Trade Unions (ACTU), a peak organisation of the labour movement and one of the traditional beneficiaries of protection, altered its stance toward protection in the 1980s. In 1986, the ACTU and the Trade Development Council (TDC) sent a joint mission to Sweden, Norway, Austria, West Germany and United Kingdom to research the relationship between government, trade unions and the business community in the formation and implementation of economic policy. After the mission was completed, the ACTU announced its own economic reform strategy and recommendations in a report called "Australia Reconstructed" (ACTU/TDC 1987). The report covered a wide range of matters, such as macro economic policy, wages, prices, training, union amalgamation, investment and trade. Most of the contents was in line with the government's economic reform policy. Bill Kelty, then secretary of the ACTU said in July 1987:

"Improved productivity is the main effective and enduring way for the workforce, management and owners of capital to increase their real incomes. It is essential that all parties understand this and have a commitment to improved performance of their industries. Unions directly represent working people and that sector of society has had to make one of the greatest sacrifices in national interest. that must be accepted" (*The Weekend Australian*, 4-5 July 1987).

"Productivity" is the key word here. Employees in the manufacturing and services sectors had been enjoying a relatively high standard of living under the protection policy, but the ACTU realised that it was also the main cause of Australia's inability to compete in the new

international economic environment. To realise its objectives (full employment, low inflation and a high living standard), ACTU now put emphasis on “maintaining the maximum possible level of economic growth and development” (ACTU/TDC 1987:19) through increased investment and productivity rather than protection.

With respect to industry development and trade policy, the report argued that the manufacturing sector should become internationally competitive and export-oriented:

“Successive post-war governments provided substantial assistance to develop a diverse manufacturing sector aimed largely at supplying a small domestic market. This policy was not without economic and social costs. In particular, manufacturing sector which developed in the 1950s and 1960s was not, to any significant extent, export-oriented. As a result, it was less exposed to international competition and not subjected to adequate pressures for improvements in production and price which is implied by such competition” (ACTU/TDC 1987:90-1).

The report recommended tripartite cooperation in planning, implementing, monitoring and reviewing industry development. It asked the government to assist industry in developing high value-added, export-oriented products by providing incentives for investment (for examples, R&D, new products, joint ventures etc.) and facilitating exports (ACTU 1987:91-101). The ACTU’s strong emphasis on productivity and the development of an internationally competitive manufacturing sector can be seen as a clear departure from the traditional attitude of Australia’s labour movement.

The 1980s was also a period of re-alignment for business organisations. The Confederation of Australian Industry (CAI) was created in 1977 by the merger of the Associated Chamber of Manufactures of Australia, the Australian Council of Employers’ Federation and other employer organisations. The CAI was set up to provide a unified body to negotiate with government and the ACTU and to rationalise the process of business representation, an aim that was not, however, achieved. The CAI became simply one of several business organisations expressing the interests of private enterprise. Another such body was the Australian Chamber of Manufactures (ACM), which was originally established in

1877 and now, as a result of a merger with the New South Wales Chamber of Manufactures in 1988, operates a Victorian and New South Wales branch. In addition, large companies were able to talk directly to the government and debate policy regardless of their membership of a group or organisation (McEachern 1991:25).

The Business Council of Australia (BCA), formed in 1983 by the amalgamation of the Business Round Table and the Australian Industries Development Association, consists of around 50 of Australia's largest companies and their subsidiaries. The main factor in its formation was frustration with the CAI especially early on.¹⁶ The CAI sought to defend the status quo, or at least the benefits that business gained from the traditional arrangements (McEachern 1991:32). The BCA took a more pro-liberalisation stance than the CAI because its members were more competitive than other small and medium-sized firms. According to a report by the BCA:

“Exporting goods and services builds wealth, but so can importing if Australia's scarce resources and skills are more productively applied to the products. Australian business can prosper by investing in Asia, or by investing in markets, etc. not available without them. In essence, the knitting together of Australia with our neighbours in Asia in many ways can build prosperity for all” (BCA 1992:9).

Here, at least, no support is expressed for the protectionism that other business organisations had long favoured. In the same report, the BCA argued that what the government could do to help industry was “to remove obstacles and support long term competitiveness to enhance the individual initiatives”. This meant policies like building sound infrastructure, supporting education and training, etc. but not protection through tariffs (BCA 1992:64-6)

Industries that were traditionally anti-protection were represented by the National Farmers' Federation (NFF) and the Metal Trades Industry Association (MTIA), among

¹⁶ The CAI was cautious about the ALP government's cooperation with the ACTU on policy, and especially on wages policy (the Prices and Incomes Accord). The CAI, early on, saw the Accord as an omen of heavier government intervention and growing political influence by the ACTU. See McEachern (1991).

others. The NFF was formed in 1979 through the amalgamation of the Australian Woolgrowers' and Graziers' Council and the Australian Primary Producers' Union. The NFF was a main force in the "new right" movement in Australia in the 1980s; it sought the exposure of all industry to market forces and the creation of an internationally competitive economy.

It is now clear that all the traditionally influential interest groups have turned away from protectionism and begun to look for internationally competitive industries through liberalisation of domestic economy in the 1980s. The main reason of this change in their stances must be the change in international economic environment and thus, the need to adjust domestic economy, however, the reason why there were not enough opposition from traditional and individual beneficiaries (small and medium sized firms and their employees, for instance) to stop the reorientation and which interest groups gained and/or lost their influences over the government decision making are still remain to be explored.

Politics within the ALP

The ministers involved in the foreign policy decision making process have their own bases of potential support (electoral constituencies, departments, interest groups etc.). Depending on their support base, ministers' roles, responsibilities, priorities and perceptions can be expected to differ. Policy outcomes will therefore depend on who (and which group that the minister represents) is most influential in the decision making process. Decision making in foreign policy is a process of bargaining, persuasion and the formation of coalitions among the participants. This intra-governmental process model was first applied by such American scholars as Neustadt (1960), Lindblom (1965), Allison (1971) and Allison and Halperin (1971) to explain US foreign policy decisions.

The elements of this model are: (1) who plays, that is, whose interests will be affected by possible government decisions and who represents these groups in the decision making process; (2) what determines the impact of each player on policy outcomes, that is, who has the power to influence others (the three ingredients of power are bargaining advantages, the skill and will to use these advantages, and other players' perceptions of these two things); and (3) how do players use their power?

The ALP had been a socialist party since its inception. Until recent years, the party platform clearly stated that socialisation of the means of production was a goal, even though the goal was not achievable in practice because the ALP was in opposition for so many years. Historically the ALP has had the support of the working class, and has aimed and expected to reflect the demands and needs of that sector of the society. Jaensch (1989:12) defined the ALP as a “mass party” which existed not only to contest elections but also to achieve the objectives stated in its party platform. After World War II, Australia’s social structure changed dramatically as the Australian economy experienced the long boom period of the 1950s and 1960s. The number of traditional “working class” people declined gradually but steadily. In addition, and more importantly, an anticommunist group split from the ALP in the mid 1950s.¹⁷ As a result, the ALP remained in opposition for 23 years until Whitlam led the party to victory in December 1972. The party stayed in power for a short three years. The ALP clearly needed to re-think its traditional ideology-driven policy positions to take account of the changing needs of people from all sections of society. If it was to win and retain government, the ALP had to become flexible enough to react to shifts in majority opinion in the electorate (Jaensch 1989:20).

The process of change in the federal ALP was, however, very slow and it was not until the late 1980s that significant changes were actually made. The following quote appeared in a newspaper one year after the ALP won the federal election in 1983:

“What seems to be happening is this. Under the leadership of Mr Bob Hawke, the Labor Party is emerging as the true pragmatic conservative party of government, the heir to the Menzies [Prime Minister of the Liberal/Country coalition: Dec. 1949-Jan. 1966] tradition” (*The Age*, 7 April 1984).

¹⁷ The Democratic Labor Party (DLP) was formed in 1957 as a result of the split. The DLP’s principle objective was to keep the ALP out of office until ALP policy recognised the threat of communism in domestic and foreign affairs. The DLP was able to win some seats in the Senate and to exert influence against the ALP until the 1970s. After Whitlam’s decision to recognise China and withdraw from Vietnam, the support for the DLP declined. The DLP was dissolved in 1978.

It was Bob Hawke and his colleagues in the Right faction within the ALP who brought about party reform.¹⁸ The ALP was, and still is, divided into three major factions: the Right, the (Socialist) Left and the Centre Left.¹⁹ ALP policies were decided by politics among factions. At any level of the parliamentary ALP, both the Right and Left factions were unable to gain a majority, and the Centre Left faction therefore held the casting vote.²⁰ Members of the Right, such as Bob Hawke, Paul Keating, Graham Richardson, Robert Ray and others, approached the Centre Left faction and co-opted its influential figures into a policy alliance in return for some ministerial posts. The power and numbers of the Left then declined. An editorial in *The Australian* on 15 July 1987 stated that:

“Mr Cohen [then the minister for the Arts, Heritage and Environment] has claimed that far too much power lies in the hands of the faction leaders within ALP, in particular with the leaders of his own right-wing faction ... The Labor Party has always had factions, but they have never been as strong or as highly developed as they are now ... Now the Left, the Centre Left and the Right, known as Centre Unity, are nationally organised and impose a good deal of discipline on their numbers throughout Australia.”

¹⁸ Hawke was not seen as a right winger until the mid 1970s. For most of the time he worked for the ACTU, he was even seen as being on the Left. The pragmatic right faction emerged in the New South Wales branch in the late 1960s, and the faction’s power has strengthened within the federal ALP since the latter half of the 1970s. The main figures of the NSW Right were John Ducker, Neville Wran, Graham Richardson, Paul Keating, Laurie Brereton, Leo Mcleay and Bob Carr (Cumming 1991).

¹⁹ To explain the characteristics of each faction briefly, the priority of the Right is to win and retain government; the Left believes in the ALP’s mission for social reform; and the Centre Left prefers a more pragmatic approach while wanting to avoid deviation from social reform. The Centre Left faction was born when it split from the Right as a result of the severe contest between Hawke and Hayden for party leadership just before the 1983 federal election. For a vivid description of the Hawke-Hayden confrontation, see Kelly (1984), especially Part 3.

²⁰ For example, in August 1987, the make-up of the ALP parliamentary executive was: the Right, 11; the Left, 11; and the Centre Left, 6 (*The Australian*, 15 August 1987). Also in the biannual ALP Conference,

After the pragmatic Right faction took control of the federal ALP in the 1980s, the party began to change. The party platform, which is rewritten at every biannual ALP conference and is still regarded as the prime document of the ALP, was finally rewritten at the end of the 1980s to remove any words that might be regarded as socialist.

The ALP conference sets the policy agenda, but the parliamentary party is able to decide priorities. It is not unusual for some of the policy agenda not to be implemented by the ALP government. Although the policies of the parliamentary party are formally decided by Caucus (a meeting of ALP members of parliament and senators), by the late 1980s there was little need to consult with Caucus before deciding or implementing policies because of the alliance between the Right and Centre Left factions. As Millar (1975:158) pointed out, “the Caucus has its main influence where legislation is involved, and there is almost no legislation in foreign affairs”. Thus in the case of foreign policy decision making, the cabinet usually has a free hand without worrying about Caucus.

Structural Change in the Bureaucratic Decision Making Process

In the post-war era, rising economic interdependence internationally and in the Asia Pacific region since the 1970s has brought the importance of economic issues in international relations to the forefront. As a result, official participation in foreign policy decision making has widened. Departments which traditionally were solely responsible for relations with foreign countries, such as the State Department in the United States and the Department of Foreign Affairs in the case of Australia, now have close contact and share responsibility for foreign policy decision making with departments previously recognised as being predominantly domestic in focus (Treasury, Commerce, Primary Industry etc.). It is clearly unworkable for departments to pursue policy in an uncoordinated manner, as the interests of each department do not necessarily harmonise with the overall interest of the country (Destler 1980:8). As it is not practical to establish a single department to deal with all aspects of foreign relations, what is

the Centre Left held the casting votes. The make-up of the conference in 1984, 1986, 1988 were: the Right, 30, 41 and 45; the Left, 41, 39 and 35; and the Centre Left, 28, 19 and 18 respectively (Jeansch 1989).

required is the broad coordination of departments in the development of official foreign economic policy.

The classic studies of the role of organisations (bureaucracies or departments) in the foreign policy decision making process were done by Neustadt (1970), Allison (1971) and Halperin (1972) among others. In their studies, the bureaucracy is described as being the organisation that provides options for foreign policy by analysing information it collects. The major characteristics of the bureaucracy are: (1) it is a constellation of loosely allied organisations at the top of which government leaders (ministers) sit; (2) it has a tendency to become parochial because it can collect exclusive information and it can distribute rewards to interest groups and government allies by achieving their interests (in the case of ministers, the reward could be re-election, while the case of bureaucrats, it could be promotion or an increased budget allocation for the organisation in next financial year); and (3) the information collected by bureaucracies can be manipulated, rather than analysed, to make up the policy options that are most desirable for the organisation.²¹ In addition, to deal with the large amount of daily work, each organisation develops routines (standard operation procedures) especially for doing “standardised” tasks such as budget preparation and report production. As routine work employs set programs for dealing with standard situations, the organisations’ priorities, perceptions and issues tend to be stable. Bureaucracies do not have the ability or motivation to change themselves. Ministers who sit at the top of organisations, however, are able to change policies by creating new routines, which inevitably leads to structural change within organisations.

During periods of foreign economic policy change, were there any structural changes in the decision making process in Australia that promoted changes in the output of bureaucracies? Viviani suggests that there were, especially in relation to Asian countries:

²¹ “Members cannot afford to admit that their actions are motivated by bureaucratic routine and parochial thinking, that is, by their own narrow interests, partly because they are not conscious of it, but also out of

“The great change in Australia’s political relations in the Asian region has meant a continuing redefinition of Australia’s interests and this has been worked through the internal policy making process of competition for priorities in foreign policy statements and has had its eventual effect in restructuring the department and redirecting staff resources to those priority areas” (Viviani 1988:52).

The Department of Trade and Industry was said to be one of the strongest ministries in the 1950s and 1960s in terms of its decision making power over foreign economic policy issues. Until the early 1970s, the Department controlled policy on exports, international trade negotiations, Australian investment abroad and import policy through the Tariff Board. Led by the long-serving Trade Minister of the time, John McEwen (also deputy Prime Minister and the leader of the Country Party which became the National Party later on), and strongly backed by primary and manufacturing industries, the Department worked “to open markets for Australian primary products and minerals abroad (especially in Japan) and to close (as far as possible) Australian markets to foreign competitors at home so as to protect a nascent Australian manufacturing industry” (Viviani 1988:51). For example, process of negotiating the Australia-Japan Trade Agreement of 1957 is said to have been conducted mainly by McEwen and the Trade Ministry. Fifteen years later, Stockwin (1972) wrote: “Australia’s relations with Japan are completely in the hands of one man”.

During the 23 years of Liberal/Country Party coalition government, the legislative and executive power of most Australian government departments increased to the extent so that the coordination of policies among departments became much more difficult. Since the 1970s, government has tried to change the structure of the decision making process of foreign economic policy. For example, the Interdepartmental Committee on Japan (IDCJ) was set up to coordinate policies towards Japan mainly by the Department of Foreign Affairs and the Department of Trade. The IDCJ did not, however, perform as expected in reviewing, coordinating and initiating policies, firstly because the participants in IDCJ from across the departments saw their role as speaking for, protecting and promoting their own departments’

fear that such an admission might leave the group or organisation faced with a loss of authority or even

viewpoints, interests territory, reputation, procedures and policies, and secondly because reports, which were expected to be unanimous, tended to list the differences between departments rather than propose opinions or suggest guidelines (Matthews and Reid 1981). The Department of Foreign Affairs also undertook some internal structural reform in the early 1970s so that it could deal better with other departments' bureaucracies. It set up seven functional divisions (including the Division of Economic Relations) to develop the specialist knowledge of its own bureaucrat in other areas. Among them was the Division of Economic Relations. Ironically, as Millar (1983) pointed out, the effect of the re-arrangement was to reduce the Department's capacity to deal with traditional political policy and carry out its bilateral diplomatic functions.

The Hawke-led ALP government, also tried to alter the structure of the decision making process of foreign economic policy. Its major move was to amalgamate the Department of Foreign Affairs with the Department of Trade in 1987. Allison (1971:68) says that "[d]ramatic organisational change occurs in response to major disaster"; In this case, the major disaster seems to have been the "banana republic" situation of the domestic economy in 1986. The government wanted better departmental coordination in pursuit of Australia's trade, economic and political interests at a time when the most immediate problem Australia faced was a trade deficit (Woolcott 1989). According to Harris (1989), considerable benefit has been gained from the linkages that the amalgamation provided with Australia's business and commercial sector.²²

In addition to the structural reform of the bureaucracy, the ALP government concentrated the foreign policy planning and decision making to a small group of ministers and their policy advisers. This is particularly true after Keating became Prime Minister in December 1991. According to the interview that the author conducted in August 1996 with political scientists in Australia and officers from several Departments, foreign economic policy,

possible dissolution" (Vertzberger 1984:71).

²² Most of the academics and the officers from the Department of the Prime Minister and Cabinet, the Department of Foreign Affairs and Trade and the Treasury whom the author interviewed in August 1995 admitted that this amalgamation has increased the efficiency of the foreign policy decision making, though they did not necessarily agree that other Departmental restructuring was a success.

especially the APEC policy, is mostly in hands of Prime Minister, Ministers for Foreign Affairs, Trade and some others. They decide basic guideline of the policy orientation and let the respective Departments to formulate detailed policies. The Department of the Prime Minister and Cabinet has a strong power to coordinate the policies that are brought up from the respective Departments. Figure 3 shows a brief image of current decision making process of Australia's APEC policy.

Last, but not least important, the role of policy advisers (official and personal) in the decision making process needs be mentioned. The Whitlam government introduced the official ministerial staff system in 1973 to compensate for the lack of ministerial control over departments and policy (Anthony 1975:124). As this system is still in place, it is important to determine how much influence advisers have in the decision making process.

Millar (1975:161) said that he did not know of any Australian academic who had had a demonstrable effect on any item of foreign policy or defence policy. In the foreign economic policy area, however, this has not been the case. As mentioned earlier, economists like Arndt, Gruen, Crawford and Drysdale have been instrumental in advising policy directions. During the 1980s, Ross Garnaut (Professor of the Department of Economics, ANU) was appointed as Prime Minister Hawke's adviser and had a strong influence on foreign economic policy toward the Asia Pacific region. His report to the Prime Minister and the Minister for Foreign Affairs and Trade (Garnaut 1989) seems to have set the direction of foreign economic policy towards the region. Again, Stuart Harris (Professor of the Department of International Relations, ANU) served as secretary of the Department of Foreign Affairs (since 1987, the Department of Foreign Affairs and Trade) from 1984 to 1987 and Andrew Elek (former Professor of the Department of Economics, ANU) was the First Assistant Secretary of the Economic, Trade and Development Division of the Department of Foreign Affairs and Trade at the time when the Australian government was trying hard to establish the APEC framework in 1989.

Tentative Conclusion

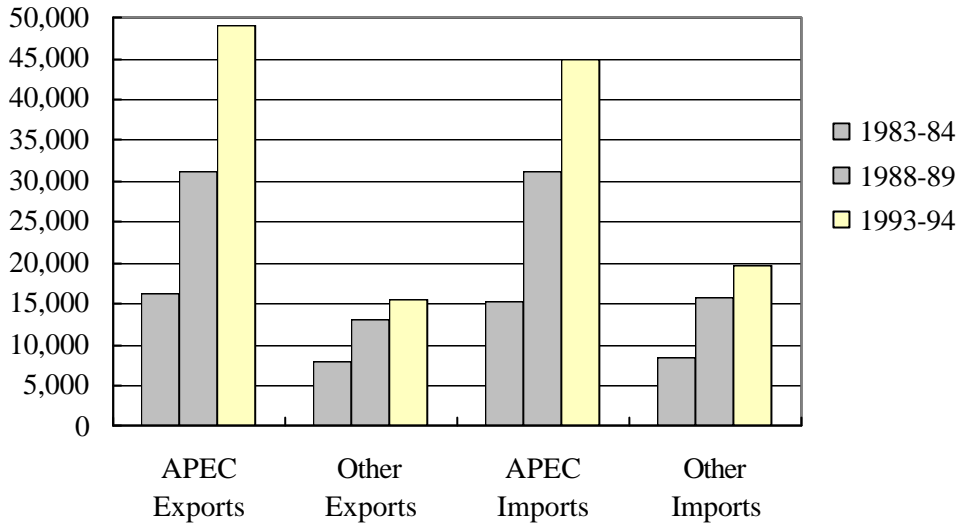
Since the APEC trade and investment liberalisation entered a new stage of setting a concrete framework after the Osaka Meeting, the need to adjust members' foreign economic policies has become more crucial than ever to proceed with the process smoothly. To avoid the split to several groups of economies within APEC, middle power members' initiatives are welcome and should be promoted. Examining and understanding the factors that influence middle powers' foreign economic policies then becomes necessary procedure.

In case of Australia, which is a typical middle power in the region and has been very active in the APEC process from the beginning, the change in international economic environment is the prime factor of its foreign economic policy. The repeated deterioration of its terms of trade and resulting recessions since the 1970s finally made it abandon its traditional protectionism and look for efficient, internationally competitive industries during the 1980s.

The ALP government has been instrumental to implement this policy change by reforming domestic decision making process. All the traditional interest groups that had been beneficiaries of protectionism changed their basic stance to accommodate competition in the market, however, the degrees of their influence over the government and the ways to influence it remains to be explored in detail.

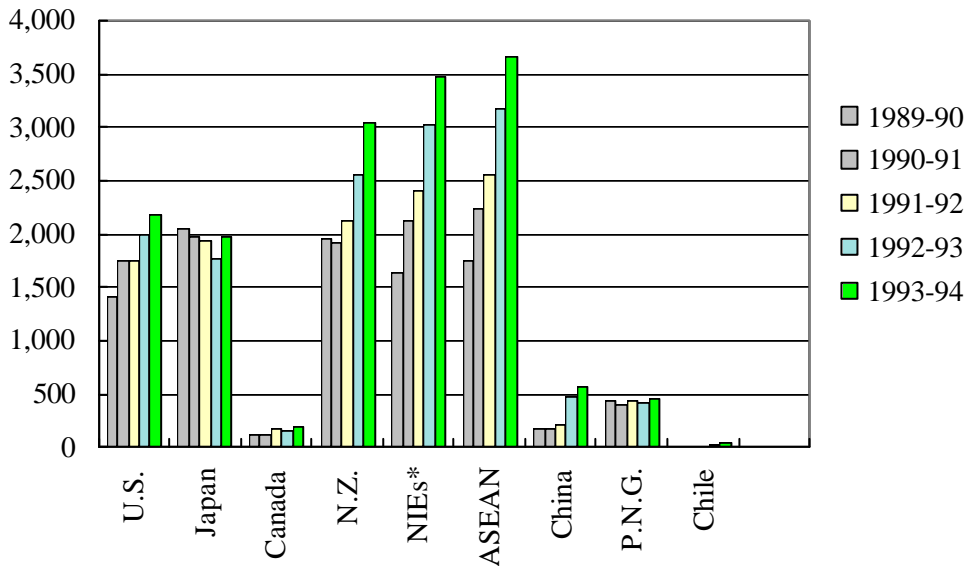
The policy continuity has been maintained through the domination of the decision making process by pragmatic Right faction within the ALP. The ALP government also restructured the bureaucracy to coordinate the various interests of Departments. The actual policy planning and decision making were concentrated to a small group consisting of Prime Minister, Minister for Foreign Affairs, Trade and some other cabinet ministers, plus their respective policy advisers (formal and/or informal). They set guidelines for foreign economic policy including APEC policy. In addition, especially after Keating became Prime Minister in the late 1991, the Department of the Prime Minister and Cabinet has acquired a strong power to coordinate the policies that are brought up from Departments.

**Figure 1. Australia's Merchandise Trade
(\$A million)**



Source: Department of Foreign Affairs and Trade, *The APEC Region Trade and Investment: Australian Supplement*, November 1994.

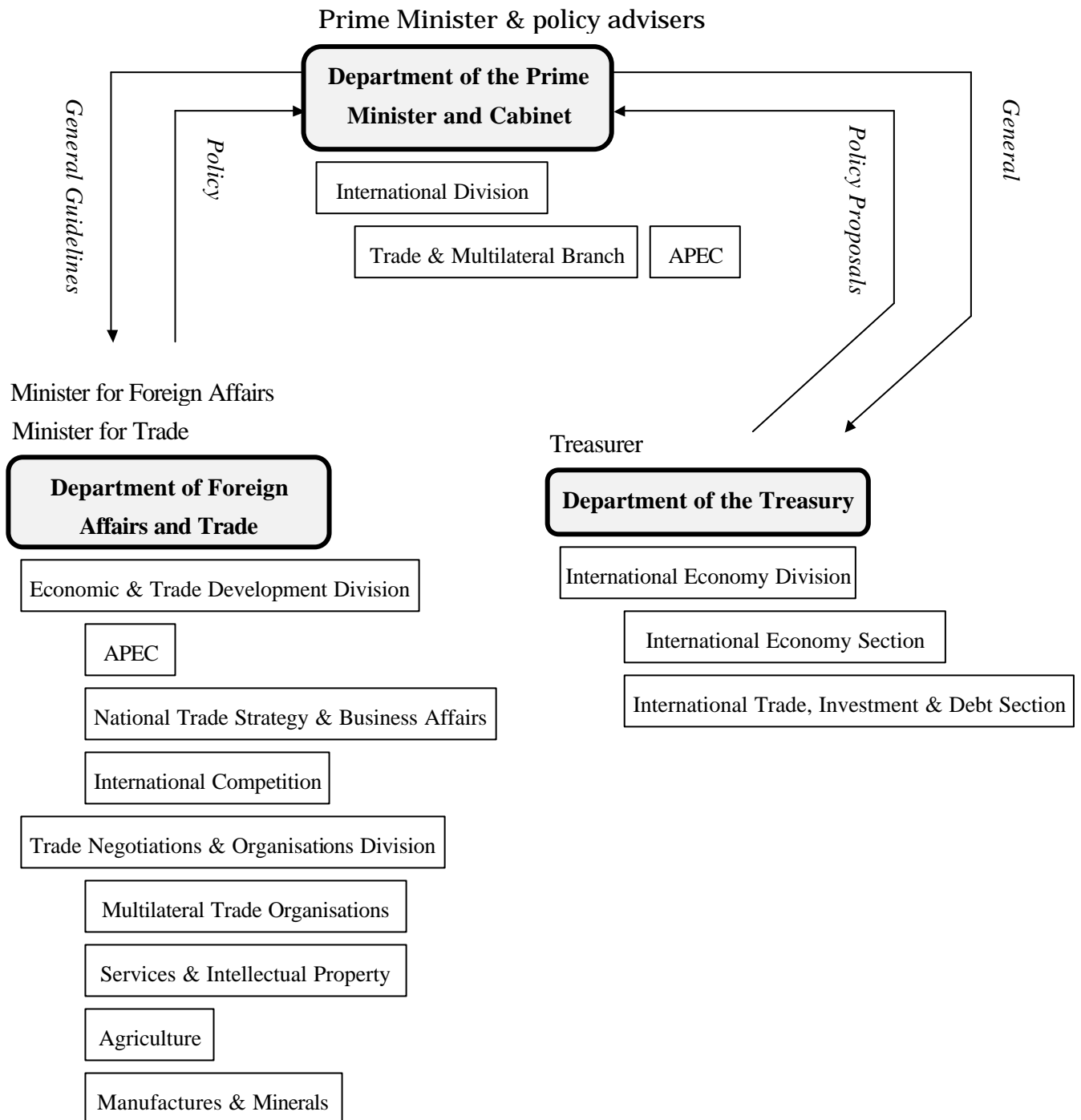
**Figure 2. Australia's Manufactures Exports
to APEC Economies (\$A Million)**



*Hong Kong, Korea and Taiwan.

Source: Same as Figure 1.

Figure 3. Bureaucratic Structure of Australia's Foreign Economic Policy Making Process



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Postscript

Prime Minister Keating called a general election in late January 1996 seeking the ALP's sixth consecutive term in office. However, the ALP lost the election held on 2 March 1996, and the Liberal/National coalition gained power for the first time since 1983. The winning/losing margin of the Parliament seats were greater than expected. The new Prime Minister is the leader of the Liberal Party, John Howard, and the likely lineup of the important ministerial posts are: Deputy Prime Minister and Minister for Trade- Tim Fischer (leader of the National Party); Minister for Foreign Affairs - Alexander Downer (former leader of the Liberal Party); Treasurer - Peter Costello (former deputy leader of the Liberal Party), and; Minister for Industrial Relations - Peter Reith (Liberal Party).

The new Prime Minister Howard announced during the campaign period that there would not be a change in foreign policy direction if the coalition won the election. Considering the current international environment and the domestic economic reform that has been made in last ten years, it can be seen unlikely that the new government will change Australia's foreign economic policy drastically. It's strong engagement with the Asia Pacific region will continue. However, the players of the decision making process will change and it is unclear whether the new government would change the bureaucratic procedure of the process. How those new factors influence foreign economic policy should be watched carefully.

(8 March 1996)

(The end of the paper)