

## AUSTRALIA'S BUSINESS CHALLENGE: SOUTH-EAST ASIA IN THE 1990S

Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs and Trade, to launch the East Asia Analytical Unit's Study on South-East Asia, Sydney, 2 December 1992

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The decade of the 1990s is one of unprecedented optimism and opportunity in South-East Asia. The major economies of South-East Asia are in the throes of an industrial revolution, one which has enhanced national self-confidence in the region and is capturing the world's attention. This industrial revolution is changing the course of regional economic development and has profound implications for Australia's long-term commercial, political and security interests.

The first stirrings of sustained, high rates of economic growth in the major economies of South-East Asia were apparent in the 1970s, and that growth continued throughout the 1980s: for the decade, South-East Asian GDP grew at an annual real rate of 5 per cent while the world grew by only 3 per cent. The decisive break occurred in the second half of the 1980s, when growth rates accelerated and ASEAN economies became the fastest growing corner of the global economy. Over the past few years, these economies have weathered the sharp slowdown in the international economy, maintaining average growth rates of 7 per cent plus - still enough to double GDP in a decade - while world growth has been negligible.

The ASEAN economies represent the third wave of post World War II successful industrialisation, with Japan the first and the East Asian Newly Industrialising Economies (NIEs) the second. Across the region, growth has been ignited by governments pursuing strategies based on sound anti-inflation and outward-looking policies.

As with the first two waves, growth has been led by exports of manufactured goods, transforming the ASEAN economies from primary producers to major manufacturing centres. By 1991, manufacturing contributed well over one-third of GDP and over 40 per cent of exports. Standards of living have improved enormously with average life expectancy rising from 49 years in 1965 to 63 years by 1991. Although war and central planning have stymied growth in Indochina, peace and the adoption of market reforms have seen these economies well and truly attached as new carriages on the industrialisation train.

South-East Asia has been the scene of considerable political uncertainty in past decades, and that has often impacted on economic growth. In the 1990s, however, the political and

strategic outlook is very promising for continued economic growth. The political leadership in South-East Asian countries accepts that economic success is a factor in political legitimacy and so there is a strong political drive to pursue such growth. This is being reinforced by the burgeoning middle class in the region. The relatively affluent provide an increasingly important constituency for stable consistent economic policies to promote growth: the ranks of the middle class will have swelled from around 6 million now (if one accepts the World Bank definition of an income of US\$5000 or more) to over 40 million by early next century.

The major new study that I have pleasure in launching here today - Australia's Business Challenge: South East Asia in the 1990s - is a measure of the importance the Australian Government places on the great transformation under way in South-East Asia. This is the first comprehensive study of the future course of rapid economic growth in the region, and of the accompanying structural and social changes sweeping across it. This study is the first attempt to look over the horizon at where the entire South-East Asian region - the countries of ASEAN and Indochina - are going in the 1990s and at what the changes mean for Australia.

It is also the first study of its kind which has been produced by extensive consultation between Australia's public and private sectors and the academic community. The East Asia Analytical Unit of my Department, which undertook the study, held workshops in the various state capitals with the business community to discuss drafts of work in progress and then to discuss the entire report prior to finalisation: it conducted the first survey of its kind, involving 126 firms, of Australian-based firms actually doing business in the region.

This report is therefore very much one from business for business. It is practical and focused on the concerns of business looking to trade and invest in the region. I would like to take this opportunity to thank the business community and also State government departments for their support and input into this project. The consultative process is underlined by the Overview to the study by one of Australia's leading business figures with long professional experience in the region - Mr Russell Fynmore - and one of Australia's foremost academic experts on the region - Dr Hal Hill of the Australian National University.

It is Australia's immense good fortune to be located next to some of the most rapidly growing markets in the world. For the first time in Australia's history, distance is a no longer handicaps our trade: as one of the headings in the Fynmore-Hill overview puts it, 'The Tyranny of Distance becomes the Advantage of Proximity'. The rapid onset of industrialisation in the region of the world closest to Australia brings with it important challenges for business, as well as for foreign and trade policy. The task is to build on the assets and strengths which Australia brings to its relationships with members of the region and to become an important part of the great transformation occurring on our doorstep.

I should emphasise at the outset that in examining the range of developments and the remarkable pace of growth in the 1980s, the Study also reminds us to keep South-East Asia in perspective. Moves towards export orientation and liberalisation have occurred at different times in different economies, beginning with Singapore as early as the 1960s, and growth has occurred at different rates from different bases. Consequently, South-East Asia today consists of nine very different markets at different stages of development: ranging from Singapore with a GDP per capita approaching Australia's, to the Indochinese economies which are among the world's poorest. Moreover, the whole of South-East Asia has a GDP only very slightly larger than Australia's, and not much more than 10 per cent of Japan's. While Indonesia's GDP is the largest in the region - at one-third the size of the Australian economy - Vietnam's GDP is only 2 per cent of Australia's and the other Indochinese economies are even smaller. There are certainly opportunities for Australian business in all of these markets - but some areas of opportunity are clearly more significant than others.

How has Australian industry responded so far to this new South East Asian environment? The short answer is very well so far as exports are concerned. Exports to the region (A \$6.6 billion in 1991) are rising more quickly than to any other part of the world - now clearly exceeding our exports to either the EC or the United States - and manufactures and services exports are rising most quickly of all. In 1980, the South East Asian region accounted for 8 per cent of our exports; by 1991 the figure was 12 per cent. Since 1987 we have improved market share in Indonesia, maintained it in Singapore and the Philippines and slowed the rate of loss in Thailand and Malaysia. Overall, we have held our market share in South-East Asia since 1987 - despite a huge increase in imports into the region. There is no case for complacency, however, as we are still a relatively small player with less than 3 per cent of the ASEAN import market.

One of the most significant findings of the study is that new complementarities are emerging between Australia and South-East Asia, which give Australia a major opportunity to diversify the composition of our exports away from standard bulk commodities - though these will always continue to be important. Just one statistic makes the point: South-East Asia now buys twice as many of our high-value manufactured goods (the so-called ETMs, or elaborately transformed manufactures) as North-East Asia, despite the fact that the latter is a very much bigger market in terms of per capita incomes and population.

The new complementarity which has emerged between Australia and South-East Asia is based essentially on Australia's comparative advantage in human capital. As a higher income, more developed economy, Australian manufactured exports and services are based on relatively high levels of education and training. These are just the types of goods and services for which demand is growing most strongly in the region as incomes rise. As markets in the region become more sophisticated, so Australia's export potential to the region reaches well beyond the farm and the quarry.

The new complementarity has been created by the coincidence of reform and structural change during the 1980s in both the region and Australia. As the major economies of the region undertook domestic microeconomic reform and, most importantly, opened their economies to international trade, so too was Australia itself adopting outward-looking policies - deregulating the financial system, cutting tariffs, reducing transport and communications costs and removing inflation from the system.

Australia's export performance in South East Asia in the second half of the 1980s, and the particularly strong growth of ETM exports, is part of the bigger picture of successful diversification and internationalisation of the Australian economy. Despite the recent claims of the Industry Commission - based on some rather idiosyncratic statistical analysis - the facts are that the share of manufactures in Australia's merchandise exports grew from 19.5 per cent in 1980/81 to 27.5 per cent in 1991/92. Over one quarter of our exports are now manufactured products, with ETMs being the fastest growing component of these exports. Efforts to improve the international competitiveness of Australian manufacturing have been paying off. Highest export growth in the 1980s has occurred in the industries which are not highly assisted, those which are internationally efficient and competitive.

While the Study demonstrates that Australia has been responding well to the new South East Asian environment in terms of exports, the picture in relation to Australia's investment in the region suggests that rather more can and should be done.

The role of investment in expanding trade is emphasised in the Study, and it provides an interesting lesson for Australia. Direct investment into South East Asia from North-East Asia, from Japan in the first instance and more recently from the newly industrialising economies of Taiwan, Korea and Hong Kong, has been the major factor in sectors which have achieved the most spectacular export success. Foreign investment has also driven South-East Asian imports of machinery and production inputs. Consequently, investing nations have not only benefited from lower cost production advantages, but also from increased exports of capital goods and inputs. Foreign investment has not meant the export of jobs where it has been accompanied by structural change in the investing country.

The East Asia Analytical Unit's survey of Australian businesses dealing with South-East Asia indicated that, of the 126 firms investing in the region that responded to the survey, only 11 per cent were relocating any existing business activity from Australia, and over 90 per cent in fact imported goods or services from Australia to supply their offshore investment. The potential trade benefits of foreign investment, and the current low levels of Australia's investment in South-East Asia relative to the trade relationship, suggest that this is an area where we may have been missing out. In the second half of the 1980s when the major players were escalating investment in this growth region, Australia was

directing its attention elsewhere.

Ultimately of course it is you in the business community who must make decisions to invest - in what, and where - based on a range of commercial criteria. It is you who have to decide when to catch a wave and when to sit on your surfboard. This Study does not presume to make such decisions on your behalf, but simply to provide some information which may assist in your decision-making processes - to point out the existence of a particular wave which looks promising.

Australia's business challenge in the 1990s is to maximise our trade and investment linkages with South-East Asia. We can achieve A\$17 billion in annual exports by maintaining market share in this increasingly competitive market. But by improving our market share by just one percentage point - and this is achievable - we could achieve annual exports of A\$27 billion by the year 2000.

Australia has assets of immense importance which it brings to this business challenge. For once, we have - as I have already emphasised - the advantage of proximity to these fast-growing markets. This is particularly important for trade in services, an area of strong import growth for the region, which requires intensive people-to-people contact and intimate knowledge of individual markets.

Demand in the region will be strong in a number of areas in which Australia has international strengths and export potential. For example, increased economic growth will foster increased demand for infrastructure-related materials and services, as well as demand for capital equipment, production-related services and inputs for industry. Because many of the South East Asian economies are resource rich, there will be increased demand for services and technology associated with developing their mining and energy industries.

The rising incomes in the region will lead to increased and more sophisticated demand for a range of food, housing and consumer products and services, including telecommunications, tourism, sport and leisure, health and retailing services. Shortages of skilled labour will contribute to increased demand for education and training services, as well as consultancy and skill-based services generally.

Among the other assets we bring to bear in our developing economic links with the region are an internationally advanced R&D base and sophisticated telecommunications and financial systems. We have a substantial development assistance program focusing on South-East Asia. The services we offer are in the English language, the international language of business. We also have a large number of Australian citizens of Asian origin who have maintained personal and business networks in the region and constitute an under-utilised resource in the Australian economy.

Decades of insularity eroded the value of our national economic assets but Australia has in recent years done much to overcome this. Reductions in trade barriers have resulted in a more open and export-oriented economy. Productivity on the waterfront and in transport has improved, dramatically so in some instances. Public enterprises which dragged down overall productivity growth are in the process of historic reform. Inflation has been cut. Diplomatic engagement has been strengthened: our APEC initiative and contributions to efforts to seek a peaceful solution in Cambodia, are two such achievements that are widely acknowledged in the region. Barriers of culture and customs have been lowered as more Australians have visited, done business with, learnt languages of, and married citizens from, the region. And we now have quite a large number of Australian firms with demonstrated track records of profitable activities in the region, and considerable reputation and commercial clout as a result.

More can always be done to build on these strengths. Increasing levels of Australian direct investment in the region may enhance commercial potential as I indicated earlier. And the microeconomic reform agenda, although we have a massive record of substantial change already behind us, is not yet complete.

Smaller and medium-sized firms could benefit from working together in overseas markets, but are still reluctant to network and form alliances to enter regional markets. In the survey of Australian business dealing with South-East Asia to which I have referred, only 9 per cent of the respondents formed alliances with other Australian firms as a means of entering the region's markets, and only 7 per cent formed alliances with third-country firms in order to access South-East Asian markets .

Exports of higher value manufactures and services are the growth areas of the 1990s and they are people-to-people intensive. They require greater investment in developing intimate knowledge and understanding of regional customs and cultures. In many cases, the most senior levels of management need to understand better and be more personally engaged in markets in the region.

Again, if it is the case that, as has been stressed, the growth area of South East Asian imports will be human capital and knowledge-intensive goods and services, this means that if Australia is to take full advantage of opportunities in these markets then our education and our science and technology base must continue to pursue excellence. Reskilling of the Australian workforce to enable the restructuring out of unskilled labour-intensive production will be, as Russell Fynmore and Hal Hill point out, a crucial part of Australia's ability to compete in the 1990s.

We cannot say too often that in an open economy like Australia's, the key to long-term growth in output, employment and living standards is strong and sustained growth in exports. The challenge for Australian business is to raise Australia's international

competitiveness and pursue excellence in all endeavours. Governments and business need to work together to boost our trade and investment performance. In this context, I am pleased to see that in preparing the overview to the Unit's Study, Russell Fynmore and Hal Hill have developed some specific recommendations for consideration by governments and business. These recommendations, some fifty of them, are aimed among other things at:

- . getting the fundamentals right in terms of appropriate macroeconomic settings, and continuing structural adjustment;
- . utilising trade diplomacy to open doors and improve market access in multilateral, regional and bilateral forums;
- . promoting economic interaction by ensuring information flows and assisting and supporting exporters; and
- . enhancing Australia's capabilities, particularly by targeting education, aid, and science and technology.

These recommendations will be considered at the next Commonwealth/State Ministerial Meeting of the National Trade Strategy in February 1993 and at the subsequent Trade and Investment Forum. The National Trade Strategy is a recognition of the need for greater government and business cooperation in seeking to improve Australia's trade and investment performance. Russell Fynmore and Hal Hill's recommendations have also recognised that, although at the end of the day it is business that must export and invest, government can make an invaluable contribution by opening doors and actively seeking enhanced access to regional markets.

The competition that Australian business will face in South-East Asia will be substantial. It will be increasingly important as a result for Australian firms to have access to detailed and up-to-date information on what is happening in South-East Asian markets, if they are to compete. This Study, and the work of the East Asia Analytical Unit in general, is part of the Government's efforts to deliver such information to the business community - and I want to take this opportunity to thank Dr Geoff Raby and his Unit for the outstanding work they have been doing, both in the compilation of this report and in their achievements more generally.

The diversity of South-East Asia's markets, their highly specific requirements and the extensive range of existing and prospective Australian business interests in the region, mean that no single study can in itself provide a detailed blueprint for Australian firms to succeed in business in the region: it will be up to individual firms, working with their industry associations and with the services we can provide through Austrade, to develop

their own detailed market strategies. Nevertheless, I would think this Study will be useful to them as a comprehensive overview of patterns of change and growth in South-East Asia. It serves to map the overall terrain of Australia's business challenge in the region.

This Study has demonstrated what government and business can achieve when they consult and cooperate. It augurs well for future cooperation in fully realizing the opportunities generated by South-East Asia in the 1990s. I commend the Study to you, not as an end in itself but as a means to the end of improving Australia's export performance, something we are all actively pursuing and something that is vital for Australia's future.

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