

AUSTRALIA AND GERMANY - PARTNERSHIP FOR PROSPERITY

Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs of Australia, to the German Chamber of Commerce and Industry, Bonn, 5 July 1994

I am delighted to have this opportunity to talk to you today, and I think it is the ideal time to be doing so. We in Australia are well aware of Germany's increasing interest in our region, the Asia Pacific. With the obvious advantages of your large economic base, it is quite possible that this country will become one of the major commercial partners in the Asia Pacific region before the end of this century.

And I know you are working hard to reach that objective. I am well aware, for example, that this Chamber of Commerce and Industry, through its work on the Asia Pacific Committee for German Business, has helped expand Germany's business presence in Asia in recent years. I also know that the German Government has been working along similar lines, notably through its *Concept on Asia* policy paper which has singled out Australia as one of Germany's principal partners for future cooperation in the Asia Pacific - a development that we in Australia particularly welcome.

Australia, as you know, is already a significant player in the region and I believe that we have a great deal to offer German companies, large and small, wanting to do business in this most dynamic region in the world. This makes it all the more vital for us to put our heads together and map out strategies for future cooperation and partnership.

It is for this very reason that I want to outline for you today the profound and rapid process of Australia's engagement with the Asia Pacific region: the way we have meshed our economic and political future with the region, so that we can lock our own growth into that of the fastest moving East Asians. I also want to give you some suggestions as to how German business might take advantage of the existing very strong relationship between Australia and Germany, and in particular about what Australia can offer Germany as a staging point into the Asia Pacific.

Asia and Australia in Change

There is no argument as to why a focus on East Asia is important for both our countries. We have all seen the extraordinary growth figures in major regional

economies - in some cases sustained at double-digit levels - and the phenomenal expansion of trade in the Asia Pacific over the past few decades. The dynamism of the whole region is leading to a fundamental shift in the centre of world economic activity, with 50 per cent of world production and 40 per cent of its exports already concentrated there.

Over the past decade Western Europe's output grew by one third and that of Japan by half, but that of Asia's developing countries trebled. East Asia's share of world production, now 24 per cent, is projected to rise to 35 per cent by 2010. Indeed by that year, East Asian GNP is projected to have overtaken that of both the United States and Western Europe.

The vast new markets created by this process of growth will mean immense new opportunities for business. Within ASEAN, while just 15 million people presently enjoy OECD levels of affluence, another 80-90 million will do so early in the next decade if growth is maintained. The developing economies of Asia are increasingly demanding the products and services of the most advanced industrial societies - ranging from Levi Jeans to the most sophisticated computer software.

As an Asia Pacific nation, we in Australia have felt particularly keenly these cyclones of change. The internationalisation of the Australian economy which has taken place over the past decade has been very much pursued with one eye on the need to operate in a more competitive world environment, and the other on the need to be part of the take-off in the Asia Pacific.

The extent of this re-making of Australia is a huge story in itself. In the time that I have here, I can give only a general sense of the breadth of economic reform we have undertaken. It is a process of change that has seen reforms which are ordinarily the work of generations telescoped into a little over a decade.

In that short period, we have floated the Australian dollar; substantially relaxed controls on the entry of foreign banks and other businesses; reformed the tax system; restructured and dramatically improved productivity on the waterfront; corporatised and privatised the major government business enterprises and created real competition in the transport and telecommunications sectors. We are freeing up labour market regulation and have moved away from centralised wage fixing to focus on enterprise bargaining. All import quotas have been removed, and tariffs are being phased down to the point where the average rate by 1996 will be under 5 per cent, and by 2000 under 2 per cent.

The record now speaks for itself. We have increased international competitiveness by 30 per cent over ten years. We have reduced the number of working days lost due to industrial disputes by 65 per cent over the past two years to March, with the overall level of disputation now being lower than for over four decades. We have achieved the second

highest rate of growth in the OECD - 5 per cent - with manufacturing leading the recovery. And we have brought inflation down to just 1.4 per cent. A recent survey by the Business Council of Australia projects a 20 per cent increase in investment in Australia this year. We have, in short, achieved the best conjuncture of economic fundamentals in over thirty years, and have done so with policies that will lock in high growth and low inflation.

This has translated directly into a massively improved export performance - particularly in the markets of Asia. Australia is now exporting one fifth of everything we produce, and we have been sustaining high rates of growth in the value of exports - 7 per cent in 1992 and 8 per cent in 1993. East Asia takes fully 60 per cent of our entire exports - up from 50 per cent just five years ago. Eight of our top twelve markets are immediately to our north.

Moreover, we have succeeded in achieving a significant structural shift in our export base away from primary commodities to high-growth, high-value manufactures and services, a shift which now sees us exporting more manufactures than agricultural products: an interesting image change for the country that was so long seen as riding on the sheep's back! Last year, our export of manufactures grew at a rate of 15 per cent and better still, exports of elaborately transformed manufactures grew at a rate of 20 per cent. This spectacular growth in our more sophisticated manufactures has been made possible by our leading-edge research and technology and industrial expertise.

Focusing just on Asian markets, we supply, for example, some of the world's most sophisticated airport landing guidance systems to Singapore; state-of-the-art traffic management systems to China, the Philippines and Hong Kong; and suspension systems to Indonesia. We provide advanced water and sewerage purification technology, high-speed ferries and medical equipment to many other Asia Pacific countries. Australia's telecommunications giant, Telstra, is second in size only to Japan's Nippon Telephone and Telegraph and is the major supplier of telecommunications systems to Vietnam, a recent major entrant into the market in the Philippines, and involved in innovative joint ventures with companies from Thailand, Hong Kong and Vietnam to install an undersea optical fibre cable system linking those three nations.

Australia as a Base for Doing Business in Asia

If you want to do business in East Asia, Australia is one of your best options. The Australian economy is a significant one by any means. Despite our relatively small population size - just 17.5 million people - we are in GDP terms the fourteenth biggest economy in the world and the third biggest in Asia after Japan and China. Australia and New Zealand together have a GDP around the size of the six ASEAN economies combined.

Whereas in past decades, when our trade was predominantly with regions other than Asia, we spoke of "the tyranny of distance". But we now find ourselves enjoying "the advantage of proximity". This advantage, which puts Australia in the same time zone as East Asia and offers short flying times to many capital cities in the region, is further strengthened by:

- . our strong skills base and technical excellence, not least in telecommunications and information technology;
- . our highly educated workforce, and a growing Asian component of our population;
- . our stable economic and political environment;
- . our sophisticated business and financial sectors as well as world-leading transport and telecommunication technology;
- . our strong scientific research base;
- . our sound relations with governments in the region; and
- . our strong Asia-consciousness - at government level, in schools, universities, businesses and in the general community - which continues to grow as we do more business with Asia, travel more to Asia, increasingly learn about Asia in our institutions, and increasingly study Asian languages.

Australia: A Regional Headquarters

All these factors, and others as well, have rightly attracted the interest of many multinational corporations and have led them to increasingly select Australia as their regional base for doing business in the Asia Pacific. There are presently eighty-one international firms which have located a regional headquarters or major regional function in Australia. Of these, twenty have done so since the Australian Government launched its regional headquarters campaign in September last year. Among them, the German companies Hoechst and Festo have established aspects of their regional operations in Australia, and Siemens has identified Australia as a centre which could be used to support its efforts in the Asia Pacific region - a demonstration of the abilities and international competitiveness of Australia's telecommunications and information technology industry and our engineering sector.

The Government has been actively encouraging this type of interest. Apart from the general advantages I have just mentioned, Australia offers a more highly competitive and efficient cost structure than just about any other major regional centre. To give you the bottom line:

- . Australia's management pool is seven to eight times larger than Singapore's and three to four times larger than Hong Kong's;
- . executives in Australia often have, on average, ten to fifteen years more experience than their counterparts in Asia;
- . the salaries of top managers are 30 per cent lower than in Hong Kong and 60 per cent lower than in Singapore;
- . expatriate packages are 150 per cent cheaper than in Hong Kong and 200 to 250 per cent cheaper than in Singapore;
- . office rents are up to 300 per cent lower than in Hong Kong and up to 100 per cent cheaper than in Singapore; and
- . telephone calls to the major economic centres of Europe and the US are in most instances cheaper than calls made from East Asia.

In his *Working Nation* statement, delivered in May, Prime Minister Keating affirmed the priority of attracting regional headquarters to Australia. The statement announced a range of measures which would further reinforce our competitiveness in the Asia Pacific region, both as a place to invest and as a base from which to do business. These include:

- . removing the dividend withholding tax on certain dividends distributed in Australia;
- . streamlining immigration procedures; and
- . allowing tax deductibility for some of the costs of relocating RHQs to Australia (this will complement existing taxation measures involving the provision for a wholesale sales tax exemption for imported used computer and computer-related equipment, and the availability of feasibility study grants).

All these advantages and incentives go with a climate and lifestyle which are among the best in the world. Everybody knows about our beaches and sports facilities - I won't rub it in about the Sydney Olympics in 2000! - but this is matched as well by a highly developed world of art, film, theatre, ballet and opera. We also offer better restaurants and wines (the latter largely a legacy of early German settlers) than you will find in most countries of the world, and I say that not as an Australian chauvinist, but an exceedingly seasoned traveller!

What all of this means is that Australia is a very attractive, comfortable, sophisticated and competitive place to do business *in*, and to do business *from*.

Asia Pacific Economic Cooperation (APEC)

I would be quite wrong if I were to leave you with the impression that Australia sees East Asia and the Asia Pacific only in narrowly self-interested commercial terms. On the contrary, we have been active and integral players in shaping the region's economic, political and security environment. I will spare you the whole story, but it is worth spending a little time, in particular, on the Asia Pacific Economic Cooperation (APEC) process, which Australia initiated in 1989, and which is probably our most substantial contribution so far to an emerging sense of Asia Pacific community.

Through APEC, we are working closely with our regional colleagues for a more open trading and investment environment in the region and one that will be wholly compatible with an ever more liberalised global trading regime. It is a process which will ultimately benefit not only regional players but those who come to do business from other parts of the world.

APEC is now accepted as the Asia Pacific region's pre-eminent economic cooperation forum. It includes the eighteen major trading economies of the region. And it builds a very firm institutional bridge across the Pacific in a way that can operate as a very useful counterweight to some of the dangerous pressures for division that exist between North America and East Asia, particularly between the United States and Japan.

Governments in the region have an increasingly clear idea of what it *has* delivered and, in particular what it is capable of delivering in the future as its evolution progresses, but I am not sure that understanding has yet extended very far beyond the region. So let me try and draw a map for you as quickly and simply as I can.

Australia sees APEC, in its present and future development, as involving essentially three bands, or streams, of activity. "Band 1", which has operated more or less from the outset in 1989, is OECD-style *economic cooperation* - in

data compilation, policy dialogue and in the development of cooperative strategies in particular sectors like minerals and energy, transport and communications infrastructure and human resource development.

"Band 2" - which has only recently begun to gather real momentum following decisions in last year's Seattle Leaders' Conference and Ministerial meeting - involves *trade facilitation*: a series of strategies (which will need active negotiation and agreement if they are to produce results), designed to facilitate trade and investment flows, and reduce costs to business, in areas such as technical standards, investment principles and guidelines, customs harmonisation, and other non-tariff barriers.

"Band 3" activity, dialogue on which has barely begun and about which views presently differ widely, would involve actual *trade liberalisation* - in the traditional tariff reduction sense - on a "GATT-plus" basis, with the ultimate outcome, some years from now, likely to be a form of Pacific Free Trade Area.

There is every reason to believe that APEC's momentum *will* be maintained. The most significant development ensuring that is the commencement - under President Clinton's chairmanship at Seattle last year - of a series of regular APEC Leaders' meetings. The second of these will be held in Indonesia, with President Soeharto in the chair, in November this year. The agreement to hold these Leaders' meetings, which has given APEC tremendous new visibility and political momentum, was itself the product of an Australian initiative, put by Prime Minister Keating as a way of injecting more "horsepower", into the APEC process.

Australia's Role in Asia Pacific Security

The other important regional context in which Australia has been actively working is the encouragement of the development of Asia Pacific *security* cooperation at government and non-government levels - which of course has positive, and important, implications for business. With the conspicuous exception of the current situation on the Korean Peninsula, this most prosperous region in the world is also the least tense. Our task is to take advantage of this favourable atmosphere - which history tells us simply cannot be *presumed*, as a matter of course, to last - and do everything we can to make sure it stays that way.

Australia's leading role in the development and implementation of the UN plan to bring about free elections in Cambodia was an important signal of the depth of Australia's commitment to the security of the region. Australia has invested a great deal in the future of Indochina through other ways as well, such as various economic assistance programs and through the investments made by Australian companies in major infrastructure projects in the region.

The creation of the new ASEAN Regional Forum (ARF) on security issues opens a new phase in security cooperation. This Forum, which will meet for the first time on 25 July in Bangkok, will bring together the members of ASEAN and their traditional regional dialogue partners, as well as other major regional security players, in particular Russia, China and Vietnam. Despite its name (which reflects its origins in the long-standing ASEAN Ministerial dialogue process), the brief for ARF dialogue will extend to the whole region.

The existence of the ARF will contribute to the development of a new sense of confidence and comfort among nations in the region in talking about security problems - real and imagined - which until now have been talked about, if at all, only in rather hushed tones.

The Australia-Germany Relationship

In approaching Asia together, Australia and Germany have a strong and active relationship on which to build. The past ten years have witnessed a substantial expansion of our relations, from economic cooperation and tourism to more fully embrace political, cultural, defence, science and technology, environmental and energy issues.

The German-born community in Australia - which numbers over 120,000, or more than three per cent of the overseas-born population - has played an significant role in cementing our two-way economic and cultural contacts. The depth of this cooperation, and the benefits from it, are borne out in many ways. In 1993, Germany was our ninth-largest trading partner, with total two-way trade amounting to almost A\$4.6 billion (US\$3.4 billion). Germany is the third largest EU investor in Australia, with cumulative investment worth A\$6.4 billion (US\$4.7 billion). Companies such as Daimler-Benz, Bosch, Hella and many more are represented in a wide range of sectors.

Australia, in turn, has directly invested A\$2.2 billion (US\$1.6 billion) in Germany, which includes the activities of major Australian companies such as TNT, Brambles, Boral and Coca-Cola Amatil. A sign of Germany's importance to Australia was its selection last year as one of the twelve markets - and the only European one - to be represented at Australia's National Trade and Investment Outlook Conference. And the interaction will be strengthened by Australia's participation as partner country in CeBIT '95 in Hanover next March - an immensely important opportunity for us to demonstrate our capacity in information technology, and one to which we are looking forward immensely.

The Australian-German Business Conference, which will take place in Melbourne in May next year, will provide German companies another excellent opportunity to explore first hand the scope for using Australia as a market and a base for operations in the Asia Pacific region.

There are many more ways in which Germans and Australians could work together. I have described Australia in Asia as no longer the "odd man out", but "the odd man in". By virtue of our history and evolution, which have given us a distinctively 'odd' cultural and demographic character within the region, we offer a familiar home for your own business culture and mores; but we also have a sound understanding of Asian ways of doing business.

The potential for German companies to enter joint ventures with Australia in Asia is enormous. This is particularly so for Germany's "Mittelstand" - those middle-sized companies which have difficulty establishing a foothold in Asia by themselves because of the perceived high risk, and impact of the set-up costs, involved. We would welcome such partnerships with German companies, not just for their skills and expertise, but also because they would further the goodwill and trust that underpins our relationship.

As I mentioned earlier, that relationship provides a solid basis on which to build closer ties with East Asia. We are used to learning from each other and cooperating frankly. But there is much more we can do to develop the relationship. I would like to see us add an exciting new layer of cooperation. Together we might explore how to help all our people, not just our business people, benefit from an East Asia miracle. In the process, we could push forward the development of that miracle, which, with the collapse of communism and the revolution in information technology, is one of the great new developments of our time.