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COMMONWEALTH OF AUSTRALIA

SENATE

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FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

**Reference: Australia in relation to Asia Pacific Economic
Cooperation (APEC)**

MONDAY, 23 MARCH 1998

CANBERRA

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SENATE

MONDAY, 23 MARCH 1998

**FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE**

Members: Senator Hogg (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Cook, Eggleston, Lightfoot, Quirke, West and Woodley

Participating members: Senators Abetz, Bolkus, Brown, Brownhill, Calvert, Chapman, Colston, Faulkner, Harradine, Margetts and Schacht

Senators attending the hearing: Senators Cook, Eggleston, Hogg, Lightfoot, Sandy Macdonald and Quirke

Matter referred by the Senate for inquiry into and report on:

Australia in relation to Asia Pacific Economic Cooperation (APEC) with particular reference to:

- (a) APEC's progress towards Australia's economic, trade and regional objectives and the domestic implications;
- (b) the benefits of 'open regionalisation' versus a free trade bloc;
- (c) the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia-Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Closer Economic Relations Agreement (CER); and
- (d) future directions of APEC.

WITNESSES

**GLASSER, Dr Robert Daniel, Acting Assistant Director General, Mekong Branch,
AusAID, 62 Northbourne Ave, Canberra, Australian Capital Territory 773**

**McGREGOR, Mr Robert, Program Manager, Asia Links, Asia Regional Section,
Mekong Branch, AusAID, 62 Northbourne Ave, Canberra, Australian Capital
Territory 773**

**OLIVER, Mr Colin, Director, Regional Cooperation, Trade and Development
Branch, Department of Communications and the Arts, GPO Box 2154, Can-
berra, Australian Capital Territory 2601 795**

**STEWART, Mr Malcolm John, Director, Federation of Automotive Products
Manufacturers, PO Box 295, Canberra, Australian Capital Territory 2601 782**

**THWAITES, Mr Richard, Assistant Secretary, Trade and Development Branch,
Telecommunications Division, Department of Communications and the Arts,
GPO Box 2154, Canberra, Australian Capital Territory 2601 795**

Committee met at 10.06 a.m.

GLASSER, Dr Robert Daniel, Acting Assistant Director General, Mekong Branch, AusAID, 62 Northbourne Ave, Canberra, Australian Capital Territory

McGREGOR, Mr Robert, Program Manager, Asia Links, Asia Regional Section, Mekong Branch, AusAID, 62 Northbourne Ave, Canberra, Australian Capital Territory

CHAIR—Welcome. The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. You will not be required to comment on the reasons for certain policy decisions or the advice which you have tendered in the formulation of policy, or to express a personal opinion on matters of policy. The committee has before it a written submission from you dated February 1998. Are there any alterations or additions you would like to make to your submission at this stage?

Dr Glasser—No, there are not.

CHAIR—The committee has already made this submission a public document. I now invite you to make an opening statement and then we will proceed to questions.

Dr Glasser—Thank you, Mr Chairman, and members of the committee. Development cooperation has been an important part of APEC for several years, as you would be aware. In Bogor in November 1994, APEC leaders made intensifying Asia-Pacific development cooperation an explicit objective of APEC. Since that time, the development cooperation agenda of APEC has been refined and focused by a number of activities and events: firstly, the Osaka leaders meeting in 1995, which specified 13 priority areas for economic and technical cooperation under the Osaka action agenda; and, secondly, the Manila leaders meeting in 1996, which developed a declaration on an Asia-Pacific economic cooperation framework for strengthening economic cooperation and development. The framework focused on six priority areas of economic and technical cooperation.

In addition to APEC's explicit economic and technical cooperation agenda, APEC has always recognised that developing member economies would need assistance to participate in APEC's trade and investment liberalisation and facilitation agenda. Japan, as you may be aware, has been particularly responsive to this need, announcing in November 1994 its partners for progress concept and, in November 1995, its special trade and investment liberalisation and facilitation account. Australia has been a strong supporter of these initiatives in various APEC fora.

Australia delivers a substantial and diverse program of development assistance to APEC developing member economies. It is estimated that we will spend about \$615 million on development assistance activities benefiting APEC developing member countries or economies.

Australia delivers a substantial and diverse program of development assistance to APEC developing member economies. It is estimated that we will spend about \$615 million on development assistance activities benefiting APEC developing member economies. A large proportion of this expenditure will be on activities which accord with either APEC's trade and investment liberalisation and facilitation or economic and technical cooperation agendas. Most of AusAID's development assistance to APEC developing member economies is delivered through its bilateral aid program.

I will just cite a few examples that you may find of interest of bilateral activities that we are supporting through the bilateral aid program. In China, the China Economics and Forward Trade Training Project is a project which seeks to improve the capacity of key Chinese policy makers from the Ministry of Foreign Trade and Economic Cooperation, MOFTEC, and elsewhere to implement issues arising from the Uruguay Round and to prepare for WTO accession.

In Vietnam, the Vietnam National Construction Law Project is a project that aims to assist the Vietnamese government to develop and implement a national construction law, with associated building codes and standards. In Indonesia, the Indonesia Specialised Training Project phase 2—we funded a phase 1 to this project as well—aims to improve staff skills in selected Indonesian government and non-government organisations in a range of areas, including small business development, international trade, policy development and analysis, district and provincial planning and environmental law.

In addition to the bilateral program, we also fund a range of activities under AusAID's regional programs. These include a Vietnamese customs officials training project, which is a particularly interesting activity because it involves a third country, so it is Australia working with Singapore to train Vietnamese customs officials. These are middle level customs officials and particularly focused on electronic customs procedures. The Australian IMF scholarship program for Asia is an activity being supported under our Mekong Basin subregional program and provides training in macroeconomic policy and management for central bank and ministry of finance officials from central and South-East Asian countries. They are so-called transition economies moving from planned to market oriented economies.

To complement the efforts of bilateral and regional programs, AusAID created in 1995 a program specifically aimed at assisting developing member economies to move towards and maximise the benefits flowing from a growing regional free trade environment. Specifically, the program supports developing members' participation in small, high impact APEC trade and investment liberalisation and facilitation and economic and technical cooperation activities identified by Australian government departments and statutory authorities.

Grants are provided for activities which support trade liberalisation within developing countries and which enhance the capability of developing countries to facilitate trade and investment. This includes projects or activities that strengthen the intellectual property rights regulatory environment, that align national standards with international standards, harmonise customs, improve quarantine controls and assist the improvement of communications and information flows and also activities that assist the mutual recognition of qualifications.

Grants are also provided for activities that otherwise support the capacity for developing countries to adapt to a free trade and investment environment and activities that support APEC's wider economic and technical cooperation agenda. Over 50 projects valued at around \$5.7 million have been approved under the APEC support program. Expenditure has totalled \$5.3 million to date and the APEC support program was allocated funding of \$2.4 million in 1997-98, this current financial year.

Activities funded to date include a DFAT trade policy training course, which is a training course aimed at improving the understanding of trade policy reform and outcomes of the Uruguay Round, understanding the core elements of competition policy, improving infrastructure planning and management skills; a CSIRO international recognition of the national standards of measurement project—a project aimed at facilitating international recognition of the standards of measurements of the Philippines; an Australian Securities Commission project, which is an activity that supported the participation of officials from China, Indonesia and the Philippines in an Australian Securities Commission summer school aimed at encouraging regional harmonisation of security laws and accounting standards; and a Department of Foreign Affairs and Trade gains from trade and investment liberalisation project, which is designed to promote the benefits of trade liberalisation that have occurred in a range of developing member economies.

Another project is the Department of Immigration and Multicultural Affairs APEC business travel card facilitation project, which is an interesting project involving a trial of 1,000 business men and women from Australia, Korea and the Philippines with a view to exploring the travel card's potential to facilitate the movement of business people between APEC countries. One final example is the Department of Primary Industries and Energy methane recovery and utilisation project, which is a joint project aimed at identifying potential sites and technologies for the demonstration of landfill gas power plants in selected APEC economies.

We believe that the importance of development cooperation will grow in APEC over the next five years or so, and there are a number of reasons we think that is the case. Firstly, successive APEC developing member economy chairs have reiterated the importance they attach to development cooperation within APEC, and we expect them to continue to do so over time. Secondly, the entry of new developing member economies such as Vietnam will add further weight to the importance of development cooperation in APEC, particularly countries like Vietnam, which are transition economies and they have quite a way to go before they will be able to fully realise the fruits of trade and development. Thirdly, countries like Indonesia and Thailand, and to a lesser extent the Philippines, have undergone significant setbacks in their developmental progress as a result of the financial crisis that they are currently experiencing. APEC will be an important vehicle in facilitating the development and implementation of programs of action aimed at addressing the impact of this devastating economic crisis.

I should point out that one of the six priorities under the framework for economic cooperation and development agreed to in Manila in 1996 is the development of stable, safe and efficient capital markets with a view towards building and strengthening financial

architectures. That is an element of the program that will have increased importance in light of the economic crisis in the region.

AusAID intends to ensure that Australia's aid program continues to support development cooperation priorities within APEC. At present, AusAID is examining the capacity of its programs to the Asia-Pacific to help developing countries cope with the impact of the financial crisis. In particular, AusAID will be encouraging applications from Australian government agencies for activities related to the financial crisis under the APEC support program over the coming year.

In conclusion, I would point out that, as you would be aware, the primary focus of Australia's aid program is poverty reduction and sustainable development, and free and open trade has an absolutely essential role to play in economic development in countries. I will just note a 1994 OECD study on the impact of trade reform which concluded that a 30 per cent reduction in trade protection measures would lead to annual income gains of about \$US90 billion for developing countries. If protection measures were completely removed, annual income gains of about \$US221 billion would be realised. That is compared to the total world net ODA flows, that is aid flows, at that time of only \$56 billion.

So it is clear that the impact of free and open trade in these countries on their development is absolutely critical, and the amount of money involved dwarfs the resources that are currently provided with regard to aid. It also highlights, I think, the important role aid can play as a catalyst in helping facilitate these transitions to free and open trade and investment.

CHAIR—Thank you. I would just like to take up that last point first, because that raises a very interesting issue when one takes into account some of the evidence we have had before us from the likes of ACFOA. They put in a submission before us that the latest trade and development report of the UN Conference on Trade and Development, UNCTAD, warns of the threat of globalisation posed by the growing economic polarisation and income inequality. It notes that evidence is mounting that slow growth and rising inequalities are becoming more permanent features of the world economy.

Then we have the statement from the economic leaders at their meeting in Vancouver last year. They there talk about achieving sustainable development, which remains at the heart of APEC's mandate. Equity, poverty alleviation and quality of life are central considerations, et cetera. Yet the figure that you quote there: do you know how that is sustainable under any model? One of the things we hear about is that trade liberalisation of itself is good, that it is going to increase the economic wealth of the country involved, but there seems to be a lot of scepticism out there. This came out with the NGOs, where we heard that the Australian NGOs are like pariahs amongst all the other NGOs from APEC countries because they are supporting the APEC process where there is a great deal of reluctance. How does one balance these competing interests? And just give us some insight as to the OECD report.

Dr Glasser—That is a very important question, Mr Chairman. I think the starting point to answering it relates to the studies that have been done of the connections between economic growth and poverty, the distribution of wealth within a society. I think what the studies show—and we would be happy to provide some of those for the committee if you would like—is that you can have tremendous rapid economic growth and horrible inequality at the same time. So, if you do not have the policies in place, the good governance, transparency, accountable systems and a commitment by the government to distribute effectively and to make sure that as many members as possible in society can share in the fruits of growth, you can have growth and inequality at the same time.

Similarly, the studies show that without economic growth poverty is not going to be eliminated or alleviated in a country; that you can have all the goodwill that you want but, without the money and the support and foreign direct investment and savings in a society and economic growth, you are not going to be able to do anything about inequality in a society.

So the lessons for the aid program are that you need to encourage growth, and in this case APEC's agenda is doing that through free and open trade, but that is not enough and it is important at the same time—with the aid program funds, for example—to fund activities in those countries that promote good governance, that promote public accountability. If you get the governance right, you will have the combination of good growth and you will address also the income inequalities within a country.

With regard to the OECD study on the impact of trade reform, I would have to look a bit more closely at the study to evaluate the models they have used and the question of sustainability as well, but I would be happy to do that, if you would like.

CHAIR—If you could, and also if you could provide that other supporting evidence that you describe to us. My experience of this inquiry has been that there may well be an understanding on trade liberalisation, trade facilitation and economic and technical cooperation at a government level and maybe at a business leader level, but once one goes beyond that there is very limited knowledge. As one witness said to us, if the general public were asked about APEC, they would say, 'Well, that is the group who put the swing set in down in the park down the road.' So there is this general lack of understanding of what the process is about. Also, many people do not see the positive effects of it. How do we overcome that? You may well firmly believe, and others may well firmly believe, that there are positives there, but how do we convince the Australian public? How do we convince people in nations such as Indonesia and others which are now suffering the monetary crisis that the way is trade liberalisation?

Dr Glasser—I guess from the aid program's perspective we highlight the importance of good governance, and in fact we have just had a review, as you might be aware, of the aid program by the Simons committee and the government's response to that. It points out that governance should be a major focus, a primary sector in the program. It already was receiving increasing attention but the government has endorsed the conclusion of the Simons committee that says that that should be the case.

It also highlights, from the aid program's perspective, the importance of this two-track approach. Given that there are so few resources available in aid internationally relative to private flows, domestic savings and even the sorts of money that would become available with free and open trade reform, it highlights that we really have to focus on strategic activities that get at that very problem: the link between governance and inequality in societies.

So the approach that tends to be taken in a number of the programs in AusAID is this sort of two-track approach: firstly, dealing with urgent immediate needs of people, inoculating children, addressing vitamin deficiencies and those sorts of things; but also, and increasingly, focusing on helping create the enabling environment for trade, private investment and governance issues as well.

CHAIR—How much does the APEC organisation itself, loose though it may be, change the direction of your organisation in terms of aid? Or would your aid program have gone ahead even if there were not an APEC? What is the actual role of APEC?

Dr Glasser—I think there has for many years been an appreciation of the importance of trade and investment and free and open trade in promoting economic development in countries. So, even before APEC, I think if we look back on the program we would find activities that were being channelled in that direction. I think the major organisational change was the establishment of the APEC support program, which was set up specifically to provide funding to activities that support APEC's agenda. As I have said, aspects of that agenda were being addressed already within the aid program, but that is the major organisational response to APEC.

There are other, I suppose, more subtle changes. We have been involved in IDCs, inter-departmental committees, and all sorts of organisational issues, consulting with government departments that are active in the APEC agenda. So there have been more far-reaching impacts as well but, in terms of the organisational change, that is the fundamental one.

CHAIR—Thank you.

Senator QUIRKE—The term Asian meltdown is actually, I think, a very inappropriate one, because the economic troubles seem to be besetting some areas of South-East Asia much more than others. We here in Australia have been postulating now for some months what the impact will be on our economy of particularly troubles in Thailand, Indonesia, and some of the other implications. Will countries like Vietnam, which is still a relatively closed economy, be as badly affected as we think? Is it the case that these sorts of societies are very heavily reliant on the bull market that was present in South-East Asia until about six months ago? What do you think the full impact is going to be on places like Vietnam of the current problems in South-East Asia?

Dr Glasser—Thank you for asking that, because I think it provides an opportunity for us to highlight that a number of countries in the region that have not received the press

coverage that countries such as Indonesia, the Philippines and Thailand have over the past few weeks will be hit very hard by this crisis, and actually already are.

In the case of Laos, although there are other reasons for what I am going to describe as well, the currency has been devalued by about 60 per cent over the last few months. There are sort of the first order impacts, where governments are responding to shoring up loans and that sort of thing, responding to those crises. But the follow-on impacts are quite severe in Vietnam. I think something like 30 per cent of Vietnam's foreign direct investment was from ASEAN countries, and the vast majority of the foreign direct investment in Vietnam was from Asian countries. Many of those countries now either cannot follow through with their commitments to fund activities in the country or are deciding now that they are not going to begin new investments in the country, because they are retrenching, essentially. This means that all of the employment figures, the growth figures the Vietnamese were counting on before the crisis, have been thrown into disarray.

We already have received reports of textile firms closing down, or at least laying off workers. We know that the Vietnamese are very concerned about unemployment. That is a major issue for them, as you might imagine, as it is for others. With devalued currencies of their neighbours, suddenly Vietnamese commodities are not as competitive as they were before, so this is having an impact. I think the press has tended to focus on countries like Indonesia, the Philippines and Thailand, but other countries in the region—for example, Laos and Vietnam—are feeling the effects very strongly, and often the effects are delayed effects.

Even if the situation improves over the short term in Thailand, for example, in Vietnam the effects of that disruption could hit somewhat later in areas such as unemployment. I know that, in relation to growth projections in Vietnam, just a few years ago Vietnam was described as an emerging Asian tiger. Those growth projections have now been adjusted fairly dramatically. I do not have the exact figures but it is no longer eight and nine per cent growth.

Senator QUIRKE—Are we talking negative growth in some of these places?

Dr Glasser—I would have to check to be sure. I would suspect in Laos yes, but I would have to check. In Vietnam, I would suspect it is getting close to very low growth.

Senator QUIRKE—And on the debt structure in Laos and Vietnam—are they big overseas debtors?

Dr Glasser—With Vietnam and Laos there is still a debt owed to the former Soviet Union as a result of that relationship they had before the emergence of the Federation of Independent States in the former Soviet Union. I think there are still some debt issues that they are resolving, but it is in a somewhat separate category. I think for the most part, though, those transition economies, because they have not really emerged or they have only recently emerged and become heavily involved, are not quite in the same category. In that

respect, I do not believe the threat is quite as severe as the secondary effects I have described.

CHAIR—On page 3 of your submission you state that the third pillar of APEC's program—development cooperation—is:

. . . crucial to enable developing APEC member countries to realise APEC's major trade and investment goals.

You also point out that successive agreements made by APEC leaders have emphasised the importance of the development cooperation side of APEC's agenda. Has APEC systematically examined the development cooperation needs of member developing economies and established priorities for development assistance? If so, can you provide the details; if not, why not?

Dr Glasser—I think the answer to that is yes. In all of our bilateral programs we engage in a series of consultations throughout the year with our counterparts. In the case of Vietnam, for example, we meet with our counterpart, the Ministry of Planning and Investment, at senior officials level to work out priorities for the program over the coming year and to evaluate how the existing program is functioning.

CHAIR—Can I just stop you there for a moment. I hear what you are saying bilaterally. We are looking at it on a multilateral basis. If you want to take that on notice—

Dr Glasser—I will take that on notice.

CHAIR—What we are trying to establish is the actual role of APEC and to see if APEC itself is involved in setting the agendas. I can understand how these things are happening on a bilateral relationship basis, but it is the multilateral basis that we are really interested in, given the role and the function of APEC.

Mr McGregor—We could probably talk a little bit about it now.

CHAIR—Yes, I would be pleased.

Mr McGregor—The Osaka action agenda was established in 1995. It identified a series of priorities under both the liberalisation and facilitation pillars of APEC, and also identified a series of priorities under the third pillar, economic and technical cooperation. Should I read through those 13 priorities?

CHAIR—Yes.

Mr McGregor—Under economic and technical cooperation the priorities were—they are quite general—human resource development, industrial science and technology, small and

medium enterprises, economic infrastructure, energy, transportation, telecommunications and information, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries and agricultural technology. That is quite a broad agenda of the sorts of priorities identified in Osaka. They were further refined by the Manila leaders meeting in 1996 in which there was actually a declaration called the Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development. That was a declaration committing APEC to pursuing economic and technical cooperation within APEC.

That identified six priorities: developing human capital, developing stable, safe and efficient capital markets, strengthening economic infrastructure, harnessing technologies for the future, safeguarding the quality of life through environmentally sound growth, and developing and strengthening the dynamism in small and medium enterprises. Particular areas of focus for APEC, at least for the calendar year 1997, were infrastructure and sustainable development.

CHAIR—Thanks for that. Whilst I understand the generality of what you are talking about, are there no specifics, though, that you can give us, either today or in the future?

Mr McGregor—We could give you a list of completed economic and technical cooperation activities that was prepared—

CHAIR—No, we have got that. We are trying to look at this issue that you identified: development cooperation as being the third pillar of APEC's program. What we want to know is whether the economies themselves actually systematically sat down and looked at the needs of the member developing economies and established priorities for development assistance?

Dr Glasser—Beyond this broad agenda?

CHAIR—Yes, beyond the broad agenda.

Dr Glasser—Why don't we take that on notice, because we will have to check to see how far they have got with that. They have certainly, over time, refined it. They started with very general issues and they are refining it slowly. Every time a decision is taken that is reflected in, for example, the way we allocate resources and the priorities for the APEC support program. But, if it is all right with you, Mr Chairman, we will take that on notice and give you a fuller response.

CHAIR—Yes. What we are trying to do is to paint a picture of what is happening with APEC. We understand it has moved from the generalities and as time moves on there has been a refining of the goals, or a further definition of the goals, so that we can get a fair feeling for how APEC is emerging into the future.

As there are no further questions, thank you very much for your time and we look forward to your further advice. Thank you.

Dr Glasser—Thank you.

[10.40 a.m.]

STEWART, Mr Malcolm John, Director, Federation of Automotive Products Manufacturers, PO Box 295, Canberra, Australian Capital Territory 2601

CHAIR—Welcome. The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. I now invite you to make an opening statement and then we will proceed to questions.

Mr Stewart—Thank you for the opportunity to meet with you and to allow me to present a perspective on APEC that represents the broad view of Australia's automotive components manufacturing industry. The Federation of Automotive Products Manufacturers is an organisation that represents the interests of component makers with sales of approximately \$6 billion and the employment of 25,000 people. Our products are very diverse. They range from textiles, glass, electronics, engines, transmissions, plastics, suspension components and a myriad of other parts that make up the finished motor vehicle. Indeed, outside of Europe, the US, Japan and Korea, Australia is the only other place in the world with complete vehicle supply capability. Foreign ownership is high in the industry at 100 per cent for vehicle assembly and 75 per cent in the component sector.

APEC includes a large number of economies, as you know, with a wide range of social, political and economic conditions. At the sectoral level the issues become only slightly clearer. When the Bogor declaration was agreed, we, like many others, believed that it was about tariffs. Most of our public response was about the level of tariffs in Australia versus the level elsewhere within APEC. While some of the points made were and still are valid, we have since come to a more mature position on APEC. We now more fully appreciate that the appropriate forum for addressing and reducing formal barriers to trade such as tariffs is the World Trade Organisation. We believe that the WTO has been effective. We appreciate that the concept of free and open trade, as expressed in trade agreements such as APEC, has enormous consequences, not only for our businesses but for people, their cultures and indeed sovereignty.

We find many, if not all, countries within APEC and other trade blocs facing a number of concerns about how to manage the process of moving to the ideal of free trade. Indeed, the context of a trade agreement or trade bloc is in itself not that relevant, as the globalisation of enterprises and the free flow of resources by firms and the increased unobstructed movement of information simply transcends the efforts of economies to interfere. Within this concept, we have found APEC and other trade agreements, regardless of whether Australia is a direct party to them, of growing value. Our overall view is that these trade agreements, which are often based on loose regional criteria, are essential in helping economies, businesses and people adjust to the process of not just trading but of working and living together.

We are increasingly finding APEC as a forum that allows us at an industry level to address many of the non-tariff trade issues that block our paths. For example, the work being done on investment, banking and business law is critical in developing a trading relationship within the region. Our own industry has worked closely with the Australian government to drive towards uniform standards on cars and parts, a measure that will not only save us an enormous amount of money but one that will ultimately open many trade doors blocked by obscure or meaningless regulation.

There are certainly many, including some of the original architects, who see subregional groups such as ASEAN as a trade bloc. Within the automotive industry there have been several attempts to use ASEAN as a regional trade zone, encouraging the development of the industry within it behind quite high trade walls. In our case, the scheme involved an elaborate system of rationalising the production of auto parts throughout various economies within ASEAN. But even the economies that make up ASEAN differ enormously in stages of development and in their relative areas of strength and weakness so that their attempts to manipulate these forces failed in the case of the car plan they established. But ASEAN itself did not fail. The attempt to manipulate the natural economic forces that were unleashed with the loosening of trade restrictions within it is what failed.

Today, we and others in our industry in the region see subregional groups such as ASEAN not so much as trade blocs but as a more manageable regional approach to the move to freer trade. Despite our own aspirations for what agreements such as APEC might deliver us, we accept it as important for us to be realistic. For example, we want to move to free and open trade within the region as soon as possible, because in our industry we have enormous competitive advantage over the fledging automotive industries of South-East Asia.

As they develop their automotive competencies, our relative advantage declines. Economic rationalism would probably suggest they go back to basket weaving and leave car making to us, but I doubt that they share this view. If tearing down trade barriers between unequal players does not allow for, or is not sensitive to, the aspirations of the weaker players then we understand that the barriers will simply stay up.

Within the APEC framework, our industry has worked closely with the Indonesian national car program and on other projects, many under the auspices of the Australian government. Did we see ourselves as helping develop our future competition? The answer is yes. But we also saw and continue to see ourselves as developing a future trading partner with natural flows of investment. We might well, over time, see some rationalisation of our two industry structures. APEC is occurring at the same time as globalisation of the world's automotive industry is taking place.

Our businesses are thinking more globally and Australia's relative advantage in automotive production means that we are potentially well placed in this restructuring process. The recent Asian economic crisis has helped strengthen our attractiveness as an investment location for our type of industry in the region. The economic lessons learnt we hope will strengthen the perceived value of APEC within the region.

The motor vehicle and particularly the passenger motor vehicle is not something that countries in the early to medium levels of development can easily afford. They are expensive and a big drain on foreign reserves, regardless of whether they are made locally or imported. We will often confuse measures designed to slow the consumption of these goods with anti-competitive trade restrictions. For example, Thailand recently increased its local content rules and Malaysia raised tariffs. It is hard to ultimately judge the pace of APEC because there are no real comparative measures to this by. To look at the target and ask how far we have to go begs the answer: light years. By our measure, however, APEC is further advanced than we thought it would have been at this time. That is to say that it has not got a long way to go.

CHAIR—Thank you, Mr Stewart.

Senator LIGHTFOOT—Mr Stewart, you said, *inter alia*, that car assembly plants were being assisted by the Australian government. What did you mean by that? I think you said many are under the auspices of the Australian government.

Mr Stewart—The reference was to many of the relationships we have developed within the APEC trade bloc having been facilitated by the Australian government. In that, we have, for example, on many occasions had ministerial missions to countries like Indonesia—

Senator LIGHTFOOT—How is that manifested in Indonesia?

Mr Stewart—We have assisted in areas such as training, assisting in the developing their national car project.

Senator LIGHTFOOT—The Timor?

Mr Stewart—Yes, Maleo, Timor. There is more than one national car project in Indonesia.

Senator LIGHTFOOT—There was, or there is?

Mr Stewart—There is. Some of them probably are ‘wases’, but they do not know it yet. Actually it is the Timor that is probably the one that has gone under. That is the connection with Korea. The answer to the question is, much of those relationships in their early stages were under the auspices—I said auspices, which does not necessarily mean any contracts regarding the Australian government were signed—but certainly under the auspices of the Australian government at the time, and continue.

Senator LIGHTFOOT—Grants?

Mr Stewart—I do not believe there has been much flow of money in that respect. In the training areas, there may have been some government involvement in moneys, but certainly in the commercial aspects, that is the inter-company commercial deals done throughout Asia, Thailand, none of them have had direct government participation through grants. They are based on commercial merits alone.

Senator LIGHTFOOT—One would assume that, because the car assembly plants in Australia are 100 per cent foreign owned and that 75 per cent of component manufacturing is foreign owned, there is very little room for the government to move that does not reflect some sort of largesse towards the foreign companies that own assembly and car park manufacturing in Australia. How does the government tread this line without assisting foreign companies in Indonesia and other ASEAN countries?

Mr Stewart—That is a good question. The simple answer has been that what is good for Australia's car production industry is good for Australia. Australia starts off from the position of being a relatively attractive place to do these things. We are very competitive and certainly most of the multinational organisations that we represent prefer to be based in Australia and ideally would prefer to produce most of their regional production here. Interventions prevent them from doing that, but we are realistic about that.

As they have developed their offshore facilities in this region, most of these companies have tended to use Australia as a competitive base for engineering, design and, in many cases, the supply of the parts in the cars. So Toyota exports cars into Asia from here; so does Mitsubishi. I do not think, at any point, our governments have ever seen it as assisting American firms to invest in Indonesia, for example. It has always been from a perspective of driving high levels of investment here, although I must admit most of that has been in the technology side, in the R&D product development side. But there has been the outflow of a fair bit of product, too.

Senator LIGHTFOOT—How does your organisation reconcile the reduction to 10 per cent of tariffs when the average male wage in Australia is over \$600 per week and the average male wage in, say, Indonesia is a fraction of that?

Mr Stewart—From our case, the automotive industry is highly capital intensive. Our competitive advantage stems from that very basis, that it requires two fundamental ingredients: massive capital and an enormous amount of skill. At \$600, we get a very skilful and knowledgeable worker. We also, given the capital base they are working in, get an output that means that our labour costs are around five per cent of the cost of making a car. At the end of the day, you are asking a productivity question. Our productivity is extremely high. When countries that have low labour rates move into auto production, I am afraid there is no real cheap way to make a car. The factories in Indonesia and Malaysia look remarkably like Australian ones. So their five per cent labour cost may indeed be one or two per cent, but so what? Our productivity is so much higher.

Senator LIGHTFOOT—Is that remarkable similarity in any way due to the assistance that the Australian government has given?

Mr Stewart—I do not think so, no. There would be a long bow in there.

Senator LIGHTFOOT—Why isn't the automotive industry, with respect to spare parts, almost entirely domiciled outside Australia, so much so that, on examination, it would appear that it ought to follow the line of Rebok and Nike and other companies like that, that manufacture footwear, for instance, in Indonesia and Malaysia and so on?

Mr Stewart—I am not exactly sure. The production of components is one of the most capital intensive industries. We have a lot of competitors in the region, of course. In some, the products themselves involve billions of dollars of investment in R&D, proprietary technology and patents.

Senator LIGHTFOOT—But that does not stop you moving offshore. Would that not encourage you to do your R&D in Australia and move offshore for your manufacturing?

Mr Stewart—With the economic conditions necessary for the production of goods like ours, you require a very advanced education system, you require fundamental industries like plastics, polymers and chemicals, and you require good road systems and port systems. These things are completely absent in the countries you are talking about. The infrastructure to support the high technology end of these businesses in these countries is lacking. I think the recent crisis has revealed how lacking it really is.

With a sleight of hand it is possible to do a lot of things in these countries, but we now realise how much they were doing it with effectively just cheque books. The fundamentals were absent. Certainly, if we look at the engineering base in these countries, there is a lack of engineers, a lack of skill, a lack of a good metals industry. To make a car part like a braking system you need knowledge of metallurgy, and metallurgy not just within a little enterprise. It comes from a depth of companies right back to the people who dig it out of the ground. Those things are all at present in Australia but not present in these countries.

Senator LIGHTFOOT—Are you saying that the Indonesian Timor car would be practically 100 per cent imported?

Mr Stewart—The Timor was 100 per cent imported. In its initial stages it was brought exclusively from Korea. At the start of the national car program the whole car was imported. With the other car programs, if we are real about the local content in terms of physical content, it is very, very low. The Proton is very low local content.

Senator LIGHTFOOT—Do you think that is the beginning of a plan to manufacture parts for motor vehicles in these ASEAN countries?

Mr Stewart—Absolutely. While their priorities are often questionable, they are grand in their objectives. We have always felt that their priorities in getting there were rather questionable. To develop an industry such as an automotive industry, you really need to have in place a whole lot of other industries first that they did not have in place. Certainly in Indonesia they thought that by having the car they would then pull through these technologies. To some extent they did, but they did it at an enormous cost. A lot of that cost was borne by foreign investment—mostly Japanese foreign investment—which has now gone very sour.

Senator LIGHTFOOT—Do you see your organisation taking advantage at some stage in the future—once the ASEAN countries have set up these manufacturing industries within their own national boundaries—of the representatives of your organisation also manufacturing in the ASEAN countries?

Mr Stewart—Absolutely. We see a lot of opportunity to place offshore. As they develop at a more rational pace, and more relevant to their local market bases and so forth, we see a better opportunity for us to assist in that development and for our firms to grow as part of that.

Senator LIGHTFOOT—Would you then export back to Australia as well?

Mr Stewart—Possibly. Australia is a pretty small market. Most of the exports from those places, assuming they eventuated, would mostly be to third countries.

Senator LIGHTFOOT—When you say ‘mostly’, do you infer that some would come back to Australia?

Mr Stewart—Yes, and there would be a flow of products from here to there to assist in their production.

Senator LIGHTFOOT—Take batteries, for instance: they are assembled in Malaysia and they are exported to Australia from Malaysia.

Mr Stewart—Yes. We also export a lot of batteries. That is the nature of the industry. We export and import. Those things are often the conditions of firms, not necessarily the conditions of economies. They are simply the nature of firms. You will find that we can generalise a statement like that, but we will discover that we import certain types of batteries and export certain types, and the same for tyres and other products—even cars. We import all our small cars and we export medium to larger high value vehicles.

Senator LIGHTFOOT—Some with over 300 per cent tariff, for instance, to Malaysia. What is your organisation doing about the removal of that? Is it doing anything at all?

Mr Stewart—We do not like it but at the same time we sense a move in places like Malaysia; certainly at the most senior levels, there is an appreciation that those things have to come down. The move to 300 per cent tariffs, of course, more recently was simply to stop the consumption of automotive products in their economy. As I said in this paper, cars are very expensive and they draw on foreign reserves. In Malaysia they just wanted to stop people buying them.

Senator LIGHTFOOT—Yes.

Mr Stewart—To tell you the truth, it is an unsophisticated way to get the outcome that they wanted. It is not one that we like either. But, in fact, I did say in here that some of those things might be misinterpreted. They have all moved with knee-jerk reactions to try to stop their consumption of these products. For quite honourable economic reasons, they are simply stopping their rich people throwing too many US foreign reserves out offshore, and they have used high tariff barriers.

To tell you the truth, we are the guys who are impacted, but we do not write into that too much. We do not write into that, 'Hey, these guys are suddenly putting up huge protective walls to protect their industry.' They have no local consumers either for their products; their cars are just rusting.

Senator LIGHTFOOT—Do you agree with the coalition government's announcement in the latter part of last year of the tariff reduction plan; does that suit your organisation?

Mr Stewart—We welcomed the announcement. It was a very good balance. Clearly, 10 per cent tariffs are going to be an enormous challenge. But remember that the plan has two halves: half of it is tariffs, and the other half is incentives on investment and R&D for the component sector. They are yet to be announced; I think it will be within the next month or so. Certainly the timing was critical in that element too. It was not just the number; it was the timing with which it would be achieved.

Senator LIGHTFOOT—I have been told that if, for instance, you were to build a Hyundai Sonata from spare parts, instead of costing the retail price of \$25,000, it would cost \$¼ million. Is that a reasonable analogy of building a car out of spare parts? Why are spare parts so extraordinarily expensive in Australia; and is that ratio the pattern overseas?

Mr Stewart—Yes, it is an interesting question. It is one that obviously we confront all the time because we make those spare parts for far less than that cost, obviously. Firstly, it is the pattern overseas more so. In many of the countries that make these products, like Japan and Korea, that is where they make most of their money—on the spare parts. So they take a pasting on the car, and make it on the parts. It is less so in Australia, where we have a much more competitive market. The key thing here is that consumers really ought to ask that question when they buy a car. It amazes me that they do not, but consumers do these things.

Senator LIGHTFOOT—It is a captive market, is it not?

Mr Stewart—There are 250 cars for sale in the Australian market and they all have different car part prices.

Senator LIGHTFOOT—Is it unfair to describe it as commercial extortion?

Mr Stewart—Yes, absolutely, definitely. Different car companies price these things differently, and they also look at them differently within their costing structure. They will sell a car to you for \$14,490, and then recover some of the parts at high prices. But the interesting thing is that we have a lot of competition in a lot of the replacement parts—friction materials and brake pads; there is a supermarket of low cost replacements around. For most of those products there are multiple suppliers at multiple prices.

There is no easy answer. We have gone through inquiry after inquiry on this and we have all sought an answer on this, including the distributors. All the other car companies out there, including our own car producers here in Australia, are expected to and do carry 10 million-plus parts. Some of them are carried for years, waiting for someone to turn up and buy them; they are in a big automated warehouse. Just with the holding costs alone, take a part that costs \$2 to \$10 and \$12, and there you get your multipliers. It is the unfortunate cost of holding and distributing some of these products. But our advice has always been that consumers ought to ask those questions.

By the way, we have done this. If you buy an Australian made car—a Falcon, Commodore, Magna, Toyota—then you look at your spare parts basket, it is much cheaper than the spare parts basket for an imported car. I wish we could get more Australian consumers to appreciate that.

Senator COOK—I have a few questions relating to the immediate future. I note your comments on APEC and its significance to the industry. We heard evidence recently in this inquiry from Professor Peter Drysdale and Professor Ross Garnaut about what they called ‘reciprocity territorialism’—I think that was their term—it being a reference to the United States taking direct action against a trading partner, demanding trade reciprocity or trade balance. You and I both would recall graphically 1995, when the United States and Japan went head to head over US entry of automobile componentry, as well as cars, into the Japanese market. An agreement was reached which was then taken through the WTO. Did Australia’s share of the Japanese market in component parts increase after that agreement, which went MFN, or did it decline?

Mr Stewart—It declined, and the American share went up dramatically. Also, the other major producers—I am being kind calling us a major producer—like Europe, the British and the French lost share.

Senator COOK—And the American shareholding went up?

Mr Stewart—It was basically in exchange.

Senator COOK—Is it a fair conclusion to say that third suppliers like Australia lost market share to the United States?

Mr Stewart—Yes, that is absolutely correct. They have also told us that they now are going to move onto Korea to pretty well do the same. We also have a large interest in Korea. Currently it is our largest export market for automotive.

Senator COOK—What value would that be?

Mr Stewart—It is now around a half a billion dollars and growing.

Senator COOK—The joint professors I referred to a moment ago were saying—they would qualify this, I am sure, as this is my poor attempt to summarise a learned and qualified scholarly point of view—that the knock-on effect of the Asian currency crisis means that economies like Japan and Korea are exporting themselves out of trouble as best they can and they require access to major markets—Europe and the United States—to do so.

The figures I took out last week show that the American trade deficit is \$197 billion; the trade surplus that Japan has with the United States is \$50 billion; and the trade surplus China has with the United States is \$42.3 billion. So in two countries over \$90 billion out of \$197 billion is held. The countries after the two that I have mentioned are Canada, with about a \$23 billion surplus; Mexico, about \$12 billion; and then Germany. Those top five account for about \$153 billion. But Canada and Mexico are in NAFTA, and one imagines that there is nothing much that could be done on a reciprocity basis with them. It tends to focus back again. You mentioned Korea. Korea has a trade deficit with the United States, but it is about \$4 billion—it is not a significant one.

If reciprocity were demanded, it would appear in this case to be with Japan and China. Do you have any advice to this committee, or through this committee to the parliament and the government, about what we should do in the event of those tensions heightening and trade reciprocity coming back on the agenda?

Mr Stewart—You have raised a couple of points in there. The first one was about these countries trying to trade their way out of trouble and then there was the more substantial second question. Even the first one is not clear. Korea loses a fortune on every car it makes and they have been cutting production, not increasing production. Perhaps it is true at an economy wide level for our products. Every time they sell another car here they lose even more money, and they do not have it to lose, because they are bankrupt.

All of the auto companies have now gone and are subject to takeovers, primarily by the Americans. And they have increased their prices. Japan is another kettle of fish, though. It has a lot of resources and a lot of product. It recently had a dilemma. It has increased its flow of automotive product into the United States, for example, and is increasingly renegeing on those agreements that it had with America.

When I say ‘it’, we keep talking about ‘it’, but, as you know, Senator Cook, the companies within both Japan and America do not see themselves as ‘its’, they see themselves as simple commercial enterprises doing whatever they want. If it is good for the company, that is it. The most recent experience is that there has been actually a change of production recently from a product that was previously going to be built in America by a Japanese company now switching production back to Japan for export into the States. I am sure that will cheer the Americans up no end; I imagine that it will add to those tensions.

I was recently in the US and talked to some automotive people and trade officials about this and I am off there again to the APEC conference next month in Mexico. The Americans certainly, as you know better than anyone, I guess, have always chosen the big bat approach to opening up these things. They also, unfortunately—and I tried to say it subtly in this paper—see these things, a bit like us in the past, as tariff issues. They have not grasped the subtlety of trading and developing long-term trading relationships in these sorts of countries to the extent that I think Australia has.

The strategy for some time now, right through to the current day, has been one of at least trying to understand the nature of the economies we are dealing with and working with them and understanding their trading problems. It has not been the approach of the Americans, who have tended to view some sort of conspiracy. I guess, with the sort of trade deficits you are talking about, they have tended to say, ‘Enough is enough.’ We are not going to lecture them on how to do their policy, but it is a different approach. Maybe, just maybe, if we were the size of the economy of America, we might have chosen such an approach too.

I think in an economy of our size we have chosen a very appropriate model for dealing with these things. We are not going to go up to these countries and argue down Malaysia’s 300 per cent tariff. It is just not going to happen. We will, over time, by working with them, make good yards. We have no doubt that they know what they are doing in terms of understanding the implications of those sorts of activities.

It still has not answered your question. To give you or the parliament advice on how the US tensions might turn out is a daunting sort of question. It is easy to say, ‘I’ll take it on notice and think about it.’ But there is no doubt that it will be in industries like ours and in some of the economies you are talking about, where these big deficits occur and are occurring, that the lights go on again. I would say that I would keep it what we have been doing.

Throughout that dispute you were talking about in the US—and we read press statements about trade wars—Australia, for its tiny size, played a pretty significant sort of role. We had a similar sort of trade concern as the Americans in a little micro level, but we took a different approach and, between us and Japan, there was a sort of an appreciation that we were taking a more sensitive approach to that.

The irony of that is, what sorts of outcomes were there at the end of the day? I think it would be dangerous to measure the outcomes in terms of the narrow issue of whether our

trade increased or not. At the end of the day, the industries are so global. We have maintained very strong Japanese investment in Australia. We have very substantial exports from Australia from those investments. At the corporate level—again, if you bring it down to the corporate level—in our total trade balance, if you like, we are better off. It is hard to ever go back and point at those sorts of trade incidents. In Japan today the market is in recession. Frankly, while I have talked about us losing and the Americans gaining and so forth, the reality is that everyone has lost. The total market into Japan is down a lot. We are picking up a lot of business through Japanese firms to third places where there is some growth, the US and so forth, from Australia.

It is tricky question. I am not absolutely certain that we can simply look at one piece of trade data and say that is an outcome. Definitely, the US pressure had a part to play in that, but a lot of other things happened at the same time. The producers in Japan are themselves fairly uncompetitive. They are having a lot of problems in Japan in drawing the resources they need to continue production levels at the rate they have been doing and they have been pushing production offshore anyway. Some of these things were convenient to them.

Regarding American producers, by the way, about six or seven years ago I used to ask people in Japan, at Toyota, for example, ‘What were these American suppliers like?’ and they said, ‘They were useless. The quality was terrible, they had no appreciation of the customer, et cetera.’ Go back last year and say, ‘What are your American suppliers like?’ and they would say, ‘They are fantastic. They have gone through a metamorphosis.’ And we believe this to be the case because we travelled there a lot too. There has been a great learning of modern management styles, quality and customer responsiveness, and it is coming through.

Senator COOK—I was not meaning to put a question to you in order to embarrass you or anything like that or trap you. I think it is a major issue for Australia that is sitting out there like a pikestaff before our eyes, and it seems little debate is going on about what options are open to a nation like ours when you have trade tensions heightening between superpowers like the United States and Japan. In this industry is where it occurred last time, only three years ago. I do not in the slightest gainsay you that overall the industry has managed to lift its performance as an export industry in the world. But Japan is a prime market for us and, should those tensions arise again, one could expect what happened last time—our access declined, American access increased and European access declined—to occur again. Putting it to the professors, their views was that one has to take these matters up within a rules based organisation like the WTO if there are unfair trading practices being engaged in. That is a hard thing to identify when the decisions are being made commercially.

Looking at another set of figures, over the last 12 months to February, I think—and I am travelling on recollection now, so these are indicative—the yen went down against the US dollar by about 12.7 per cent, the Australian dollar went down against the yen by about 6.3 or seven per cent and we went down—I forget how much—against the US dollar. So, for your members competing into the Japanese market, where there is equality of comparable levels, which I think is the case for Australian producers anyway, and where timeliness to market is not a factor at all, because we are reliable suppliers, where we are competing on

price, exchange rate variations ought to give us a competitive edge into that market which is quite considerable.

Whatever one might say about exchange rates, you do not base long-term contracts on momentary fluctuations. But the bands in which those currencies are trading, the relationship of the yen to the US dollar, the Australian dollar's relationship to the yen, those relationships are likely to hold, although there might be some volatility within those bands, and that is something on which you could actually base longer term contracts. Is there any sign, in view of those changes in the exchange rate settings, that we are able to beat American producers on price in Japan?

Mr Stewart—The interesting thing about that is you said the Japanese market and you talk about exchange rates: the Japanese market is the whole world. It is all based on, amongst other things, exchange rates. For example, Japan sells into America at yen basically—converted to US but yen—and they sell into Zimbabwe and South Africa and Asia, Europe, America, all the various countries in the world. We are finding that in that broader Japanese market our competitiveness is increasing a lot, because you are supplanting a yen based product somewhere else. Indeed, as you know, a lot of Australian Japanese owned companies like Toyota are selling into markets that were previously supplied from Japan. But interestingly enough the Middle East, an auto market previously supplied almost exclusively by America, is now being completely taken over by the Japanese. And it is good for us that there are a lot of Australian made cars in that Japanese takeover.

As far as back into Japan goes, the simple answer to your question is no. There is absolutely no room in the Japanese market to bully anyone. This is where the Americans really got it wrong then and they will get it wrong again—unless we accept that Japanese companies in Japan have to shut factories to placate the American trade imbalance issue, because the reality is that their market is very flat if not static, if not declining in Japan. It is oversupplied, and there is this big trade imbalance which was built up some time in the past. It is a historical trade imbalance that simply sits there like that. It moves up and down with ebbs and flows, of course, more as the capacity in America and Japan builds up. As I have just described, one of the big truck businesses doing that with something as narrow as exchange rates means it is just not worth while that company making them in the States and making them in Japan, because they do make them in Japan and they are more competitive.

Part of the problem with this is if the Americans get too much bothered by that. I recall that at the time the first instance occurred I genuinely felt the Japanese did not have very far to go. They placated the American concerns as best they could but what has really happened is that in the total sum of numbers the imbalance is still there. The interesting thing there is: is the Japanese market closed? That is what the Americans have said. And that is another question, because the Japanese defence has always been, 'Well, sell in our market. If you do not like the trade imbalance, do not stop us trading with you. You sell in our market.' My view from a third party perspective is that the Americans have not done enough and they do not understand enough about the Japanese market to do it efficiently. The Japanese market, in my view, is relatively open. It is just damn hard, and harder than most to understand and penetrate.

Senator COOK—I do not want to go endlessly through this, but essentially we found that we lost market share after 1995—and so did Europe—into the Japanese market and that America gained market share. With the exchange rate favouring our producers on price and our being competitive on quality and timeliness, we are finding now we are not making bigger inroads into the Japanese market. We are competitive with Americans on price and we are competitive with Japanese producers on price as well, but we are not making any big inroads into that market at the present time.

Mr Stewart—That is right.

Senator COOK—That seems to defy commercial opportunity, doesn't it?

Mr Stewart—No. The Japanese market is in bad shape. You said that we are competitive against Japanese suppliers as well. As a generalisation, yes, but when their backs are to the wall they pull out pretty good prices. At the moment with the problems they are having in their Asian markets and so forth, the ability to replace a Japanese domestic supplier is very tricky indeed. In the longer term view—

Senator COOK—There may well be non-commercial reasons why we cannot displace them.

Mr Stewart—Yes.

Senator COOK—There may be commercial reasons about company loyalty, longer term commitments about investment and so forth. The Japanese penchant to go for market share over price is a prime consideration—issues of that nature. To bring this all back to the relevance of this inquiry, is this a matter that your association thinks should be looked at, at least within the APEC context, as the United States, Japan, Korea, China and Australia are all in the same big group?

Mr Stewart—Yes.

Senator COOK—Often APEC has been an area where we have sorted some things out first and then taken them to the World Trade Organisation and created international standards. Is this something that we should be looking at as governments?

Mr Stewart—Very much so. One thing that we have certainly observed is a reluctance to get too dirty, to get down into some of the dirty issues within APEC. It is not without good judgment around the traps that they have done that but certainly at a sectoral level the automotive industry is a major industry in the region within the APEC group, if you think of the United States, Japan, Korea, and you think of the tensions you are talking about and the fact that so many of them come out of those industries.

It is interesting to note that within APEC there is no agenda at all for the automotive industry, apart from the transport working group which is nibbling at the edges on things that are important to us—critical, as I have said—like standards and so forth. We see those things as very important. They are door openers. There has never been within APEC any real willingness to sit down at, say, a sectoral level.

I would suggest it may not be just automotive; there are a few other industries where at the sectoral level there has been no-one promoting the idea of thrashing out. I know the departments of foreign affairs and trade would caveat that with a very thick shielding of protective words but, certainly, to get into that area and to have a good old talk about the stresses and tensions and the industry development would be useful. Had some of that been done earlier, we could have prevented some of the hardships that are occurring in our sector in Indonesia, Malaysia and Thailand today, because they really did make some irrational choices.

If you think about our advantages and what we could have done, there are some natural sorts of relationships. Why they moved into passenger car production is beyond us, for example. There are a lot of things that we probably could have said to them earlier in the right context to have helped our common development that probably still could be said. No-one is suggesting they stop or abandon their dreams of having these things and doing them. Within APEC there is no agenda at a sectoral level, and if there is an opportunity to raise it it would probably be a good one.

Senator COOK—Thank you.

CHAIR—Thank you very much, Mr Stewart. I think on that note we had better draw it to a conclusion. We have got still one group to go before midday. Thank you very much for your evidence.

[11.30 a.m.]

OLIVER, Mr Colin, Director, Regional Cooperation, Trade and Development Branch, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601

THWAITES, Mr Richard, Assistant Secretary, Trade and Development Branch, Telecommunications Division, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601

CHAIR—Welcome. The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. You will not be required to comment on the reasons for certain policy decisions or the advice which you have tendered in the formulation of policy or to express a personal opinion on matters of policy.

The committee has before it a written submission from you dated 23 October 1997. Are there any alterations or additions you would like to make to your submission at this stage?

Mr Thwaites—There are no alterations to the submission.

CHAIR—The committee has already made this submission a public document. I now invite you to make an opening statement and then we will proceed to questions.

Mr Thwaites—Thank you. There are certain matters which have arisen affecting the general climate of what is happening in APEC, and they have some implications in relation to the work that we are doing, but I do not think it is necessary to go into those in great detail unless members wish to follow them up in the form of questions. What I would like to indicate in the form of an opening statement is the reasons that we understand the work we have been doing has been effective and is worth continuing with. We have set out in our submission the kinds of things that are done by our department, most particularly through the telecommunications working group of APEC. There are some areas, of course, where our contribution is in the form of liaison and coordination with other parts of the government. Indeed, everything that we do is done in close liaison and consultation with Australian industry.

I think perhaps the point that we would like to emphasise is that the reason we consider our efforts are well rewarded is that in the industry we are dealing with, telecommunications, it is not a zero sum outcome. It is something where there genuinely are win-win results available through the kind of cooperation opportunities that APEC presents. That is due to the nature of the industry, which has three kinds of rewards from growth. On the one hand, there are the rewards of participating in build-out or infrastructure development, and in that

respect Australian industries, of course, have a very substantial export trade in equipment. There are also other forms of export trade such as consultancies, management and capital investment projects which are the fruits of growth and development in our APEC partners' telecommunications networks.

The second kind of benefit is due to what is called the network effect, which is the rule that applies throughout telecommunications and some other economic sectors, where the more people have a telephone the more potential use and value there is to every other telephone. In that respect, when we have growth in, say, the Thai or the Malaysian telecommunications networks, it means that there is more potential use for the Australian telecommunications network. And, since the APEC economies, represent our most significant trading partners, this is an effect which is very noticeable and very appreciated by Australian industry, particularly those sectors which are trading with other APEC members.

The third level of benefit is the general economic benefit that applies through telecommunications as an infrastructure that facilitates trade and development of all kinds, and where the benefits that come through are much greater than you would find through simply trying to calculate the actual money that flows through the industry itself. The value of the transactions that occur across telecommunications and the various kinds of benefit, whether they are in terms of new trade and new economic activity or whether they are in terms of economies and cost reduction in existing sectors, is enormous and generally recognised.

As a result, it does not really make a great deal of difference whether it is, say, a centrally planned economy such as China or Vietnam, or a very liberal economy; probably New Zealand would be the most deregulated. All still see the benefit in the kind of cooperation that we can pursue through APEC. As a result, we feel that the telecommunications working group in particular has been a remarkably effective process over the past five of six years.

Just briefly I might refer to the Asian financial crisis in respect to the work that we are doing. To the extent that capital investment projects relate to the work of our working group, there is certainly a noticeable slowdown—certain projects have been postponed or their future is uncertain. Perhaps the most immediate effect in our kind of work, since it is largely a matter of government officials and regulators working together to harmonise things, is that there have been a number of cases where people simply cannot even travel to meetings from various of the economies that have been hardest hit. There have been government wide restrictions or bans on travel, so some of the activities have been slightly reduced in attendance or participation due to a factor as simple as that.

I might say that in those cases it is, if anything, emphasising the benefits that we can all draw from a greater reliance on telecommunications. If I may say, one of the features of the way that we do work is that we use electronic mail and telecommunications wherever possible to pursue our objectives mutually. I think that is probably enough for our statement.

CHAIR—Thank you. I am not saying this facetiously, but I am surprised that the progress has been slowed down because officials cannot travel. When the area of expertise is telecommunications, one would have thought that there would have been other avenues open and available which may well have allowed progress to continue. Is this a matter of the group not recognising its own strengths?

Mr Thwaites—If we all had the same access to facilities that would be the case, and it is true that in relation to some of the partners with a similar degree of economic development to ourselves in telecommunications network development, and indeed a cultural situation where you will have officials dealing with their own e-mail and so on, there has not been any slowdown in our ability to communicate. In fact, that improves virtually week by week. But many of our partners do not have such facilities and there is still quite a gap between the capacity of various governments to work that way. It is one of the things that we are working on.

CHAIR—Is there a specific role that Australia should be playing to ensure that the agenda does not slow up, does not come to a halt? It seems to me that we are going to be one of the major beneficiaries of the continuation of your program as outlined in your submission. What role should we play within APEC to ensure that this does not grind to a halt, or at least be retarded to any extent?

Mr Thwaites—There indeed is a role, and it is quite consistent with the program that we had been pursuing. In a sense, although I mentioned the downside of the financial crisis, it has also brought into sharp focus, for many governments and regulators, the importance of accelerating the development in telecommunications because of the efficiencies that are available through telecommunications. Also, there has been a realisation of, quite explicitly, commitments required by organisations such as the IMF, which have been putting pressure on those who need IMF assistance to give priority to restructuring and to forms of reorganisation or new practices in the relationship between government and industry which are totally consistent with the APEC agenda.

I think it is true to say that we have noticed that, although at this point a lot of governments have not fully committed themselves or are not quite clear how they intend to implement those sorts of programs, at the officials level there is certainly a sharpened interest in it. We see it as a factor that will accelerate the kinds of transparency and liberalisation agendas that are central to the APEC cooperation.

CHAIR—Just briefly: in your submission you referred to a meeting that occurred on the Gold Coast in 1996, which brought out a description of what liberalisation will mean in practice. It is attachment A. I noticed in reading that attachment, bearing in mind that it is heading down the path of a completely liberalised free marketplace for telecommunications, that there is no mention of community service obligations. Is that the sort of thing that should be addressed by APEC, or is it just broadly the issue of tariff and certain non-tariff barriers?

Mr Thwaites—You are quite right, Mr Chairman, that there is not a specific reference in those terms, but there is reference to government responsibilities in section 5 of that attachment, and there is reference to what consumers ought to be able to expect—or use, as it is called—in section 1. Indeed, the universal service principle is one which is debated consistently.

One of the things that we have done is to host, in the last few weeks, an APEC seminar—it was held in Darwin with support from the Northern Territory government as well as the Commonwealth government—on the subject of how you pursue universal service obligations in ways that are consistent with liberalisation and transparency, with reference particularly to the theme of adopting transparent funding mechanisms for universal service roll-outs. It was an extremely valuable seminar, I think well appreciated, with very good inputs from people across the range of the economies as to what the issues are and ways that they can move forward. We do recognise that it is, for many, the central issue in terms of an immediate outcome.

CHAIR—But it is not one of those issues that it is too hard to come to a determination on at this stage within the APEC forum, is it?

Mr Thwaites—At the level at which we deal with it, which is at the policy level, it is something on which real progress can be made and, in fact, is being made. It is not all that long ago that it was assumed in Australia, as well as virtually every other country, that the only way you could pursue universal service obligations was by having a government owned monopoly that carried out government programs.

It is now recognised in all of the developed world that there are other ways in which you can do it—in fact, more efficient ways. Certainly in Australia we have demonstrated that you can fund universal service obligations transparently and across a broad base of industry; it does not have to be done through monopolies. Discussion and sharing of those kinds of experiences is very meaningful when you have countries like China, Indonesia and Papua New Guinea—the wide range that exists within APEC—all looking at the same general problem, in different circumstances but with the same objectives. We found that that seminar was a very worthwhile activity.

CHAIR—Is there any paper arising out of that seminar which might be useful to us, any conclusions?

Mr Thwaites—There is a report in preparation. That can certainly be made available.

CHAIR—We would appreciate that.

Mr Thwaites—It will probably be a little while before it is finalised.

CHAIR—I understand that. Senator Lightfoot.

Senator LIGHTFOOT—Mr Thwaites, I wonder whether you are able to tell the committee where Telstra ranks within the APEC countries. Obviously, it is less than in the United States and less than in Japan, and probably less than in a couple of others. But where does it rank? Even a generic answer would be attractive to me.

Mr Thwaites—I could not offer a precise ranking. I presume you mean in terms of its—

Senator LIGHTFOOT—Capitalisation.

Mr Thwaites—Some of that is influenced by real estate costs and things of that nature. If you look at it by, say, the number of lines that it serves and provides, it is probably about fifth or sixth; partly because countries or, shall we say, economies such as the United States do not have one national carrier. It is obviously dwarfed by carriers such as in China, or NTT in Japan, but it is one of the larger carriers within the region.

Senator LIGHTFOOT—Where would it rank in terms of capitalisation, at a guess—greater than fifth or sixth?

Mr Thwaites—It would be around fifth or sixth.

Senator LIGHTFOOT—In capitalisation as well as in—

Mr Thwaites—Yes, but I do not have that figure with me.

Senator LIGHTFOOT—You have capitalised the connections?

Mr Thwaites—We would have to confirm a precise figure but, going on my recollection, economies such as Taiwan, Korea, Japan, each have got very substantial carriers which would probably be capitalised more than Telstra.

Senator LIGHTFOOT—You might be kind enough to take that on notice, if that is not inconvenient.

Mr Thwaites—Certainly. We can provide it.

Senator LIGHTFOOT—Thank you. With respect to the Indonesian, Malaysian, Thailand and South Korean economic disasters, the last of which seems to be rectifying itself much more quickly than the other three, what exposure does Telstra have in those countries in a negative sense?

Mr Thwaites—That is again a question which I would need to take on notice, because it is not an area that we normally concern ourselves with in the branch dealing with trade and development.

Senator LIGHTFOOT—But it would come within your trade and development portfolio, would it not?

Mr Thwaites—It comes within the communications portfolio to the extent that we still have the responsibility for Telstra as a shareholder, but it is not a major preoccupation. In the Trade and Development Branch our concern is with the environment for business rather than with Telstra's particular situation.

Senator LIGHTFOOT—What countries is your department concentrating on with respect to international development?

Mr Thwaites—Generally speaking, the APEC region.

Senator LIGHTFOOT—Is that because of the APEC structure, or is it coincidental to that?

Mr Thwaites—It is difficult to say which came first, I think. It is because this region is significant to us that Australia has been supportive of the APEC structure. It is not that APEC imposes any horizons; it is that it happens to be consistent with the horizons that we have.

Senator LIGHTFOOT—With the downturn in our closest significant trading partner, Indonesia—remembering that, whilst Indonesia exceeds 200 million and Australia does not quite have 20 million, Australia's economy is roughly 10 times greater than Indonesia's—what efforts have been made within your portfolio, again, to take advantage of the better than 10 per cent growth in China's telecommunications to negate any downturn in international telecommunications activities?

Mr Thwaites—I should perhaps make clear that our portfolio's responsibility is not precisely the promotion of trade. There is a Department of Foreign Affairs and Trade and there is also the department of industry, which has the responsibility for the hardware and software export types of industries, so in that sense our role is incidental. Our role is in fostering, particularly within the communications ministries, an appreciation and understanding of the benefits of liberalisation for network development, so in that sense it is indirect to Australia's immediate market interests, although we consult with our industry about what the important areas are that they would like to see market access improved in and we then work on that. China remains high in that listing.

We relate very closely to the Chinese, both bilaterally and through APEC. We have a number of projects under way specifically which are based on exchange of experience in

developing a competitive industry. As I say, that is an indirect way. But, clearly, if you are getting better growth in China there are going to be more opportunities for Australia to export. We have certain specific collaborations in the area of human resource development where the Chinese counterpart ministry has adopted a model for technical training that was developed here in the Australian telecommunications industry—

Senator LIGHTFOOT—How does that advantage Australia?

Mr Thwaites—Australian consultants are involved and Australia's reputation as an effective manager of a telecommunications industry becomes significant.

Senator LIGHTFOOT—Is that a pro bono publico gesture by your department or Australia, or is that something that is more rewarding than that?

Mr Thwaites—No; it is something which the Chinese ministry is quite in a position to pay for. There are contracts, some of which may have an aid component, either Australian or Asian Development Bank or other sources. The work that is done by Australians will be done on a commercial or self-supporting basis to a large extent.

Senator LIGHTFOOT—I take it then that there is a conscious effort within your department to combat the downturn of the four nations that I mentioned—Indonesia, Thailand, South Korea and Malaysia.

Mr Thwaites—There is, but it does not necessarily mean looking elsewhere. In the case of Indonesia, for example, the crisis that they have faced has encouraged them to accelerate their intention to review their own telecommunications legislation to facilitate foreign investment and participation on a more equitable and transparent basis than is currently possible. In that, they have specifically approached us, because of the relationship we have built up over the years, to assist them with looking at options for a regulatory system which is more appropriate to the contemporary environment.

That is the sort of thing where our portfolio has a specific role and where we can focus on helping to bring people out of their current difficulty while setting a very strong foundation for future engagement. Of course, Telstra remains heavily engaged in Indonesia, as do a number of other Australian providers, both at the equipment level and as service providers, who have vital interests in the recovery of the Indonesian economy.

Senator LIGHTFOOT—There has been a downturn in Indonesia with respect to service provided?

Mr Thwaites—As I mentioned at the outset, there has certainly been some caution in terms of further capital investment. We have not asked Telstra, for example, or any other firm, for a risk assessment on their current investments.

Senator LIGHTFOOT—This is my last question because we do have some time constraints, Mr Thwaites. I imagine you do not have any personal eyeball contact with counterparts in Indonesia. Would that be right?

Mr Thwaites—No, that would not be right.

Senator LIGHTFOOT—What sort of contact do you have there?

Mr Thwaites—We meet them, of course, in the APEC forums. There are also other regional cooperation forums where we meet and we have a memorandum of understanding for bilateral cooperation, which was renewed and refreshed only a few weeks ago by Senator Alston when he visited there in his capacity as minister. An Indonesian representative from their industry association joined us only two weeks ago for a six-month exchange program to learn about the structure and effectiveness of the Australian regulatory system and the way the industry works.

Senator LIGHTFOOT—Was he or she seconded by the Indonesian army or the armed services?

Mr Thwaites—No. She is the executive of their industry association. In their case the industry association embraces both the manufacturing side and the service provider side.

Senator LIGHTFOOT—I have just one more question, Mr Chairman. Would it not be fair to say that the Indonesian communications are either directly or indirectly controlled and owned by the Indonesian armed services?

Mr Thwaites—I do not think it would be. The relationship between military and private interests at the personal level is not something that we have any concern about. But in terms of the structure of the industry itself, it runs through a separate ministry which is not in any way connected to the military. We know the senior people in that ministry from the minister down and none of them is military. That ministry has very close—

Senator LIGHTFOOT—With respect, President Suharto is a former general.

Mr Thwaites—Yes, he is. Certainly, but you can have chief executives who have come from any kind of background.

Senator LIGHTFOOT—I think that is a little naive, Mr Thwaites, with respect.

Mr Thwaites—It is not really my issue.

CHAIR—I think we are getting into an area we should steer clear of.

Senator COOK—I have a couple of very brief questions. Under the telecommunications working group and Australia's involvement, you have four dot points about what we are involved with from the liberalisation steering group down to the human resources development steering group and some explanation about the activities of each of those. Is the input we make into these groups providing descriptive advice as to what our programs are? For example, does the human resources development subgroup provide descriptive advice saying what our programs are, what the training standards might be and how we go about encouraging training, or do we hand over our intellectual capital in those groups?

Mr Thwaites—There can be elements of both but, as we mentioned just a few minutes ago, in the case of the human resource development, there has been substantial Australian consultancy business come out of this kind of activity. In a group such as the APEC work, you establish credentials by being active and by indicating that Australia has a realistic and effective system. Consultancies of considerable value have come forth as a result of that in several countries.

Senator COOK—These are consultancies with whom—with your department or private sector consultancies?

Mr Thwaites—Private sector consultants. Our department has never undertaken any paid remunerated activity through this method.

Senator COOK—Is your department not able to do that or has it chosen not to?

Mr Thwaites—We have considered it. At times when the requests being made on us for information exchange were so frequent and demanding, we have considered it. But what we have done in preference is to keep close contact with AusAID and, in a number of cases, we have had support from AusAID where the requests being made to us were consistent with AusAID programs. That includes the AusAID APEC support program that was described earlier this morning, but also there are certain other programs which are bilateral or other support programs of a specific kind that can be relevant. That normally applies where the benefit is of the harmonisation of government approaches. When it comes to something which is of an operational nature, such as HRD in a telecommunications carrier where there are commercial returns and so on involved, then those things have been followed through on a commercial basis.

Senator COOK—One of the issues that I am interested in, and maybe we want to look at in terms of recommendations from this inquiry, is that we have, whatever Australians might think, a world-class public service. That is an industry and, as an industry in this part of the world, it is an industry where levels of improvement are obviously necessary. To what extent do we market our knowledge of managing these systems to other countries? Do we just give it away or do we market it? We do not market it at all, from what you are saying.

Mr Thwaites—What I am saying is that in areas which are operational—and if I might refer outside the portfolio, we have recently been aware that certain other portfolios which

have major service delivery functions have indeed been marketing their expertise. In our case, we feel that the benefits to Australia are very visible and real by establishing harmonised ways of working. There has been a substantial benefit for us, for example, in the shifts that have occurred in thinking and that way of approach in the governments of the region.

A few years ago you could pretty safely assume that governments would see their role as being to defend the interests of their domestic carrier in all circumstances. In probably the majority of economies now governments are applying a consumer focus or a user focus. They are looking outside their narrow vertically integrated model to a broad economic benefit model. This has been in part, we believe, due to the consistent promotion by us of that different foundation for policy in this area. To be charging for that, I think, might be asking a bit much when we feel that there is deep-seated benefit coming to us from the harmonisation that is occurring.

Senator COOK—Thanks very much.

CHAIR—Thanks very much, Mr Thwaites and Mr Oliver. The hearing now stands adjourned.

Committee adjourned at 12.03 p.m.