

CHAPTER III
AUSTRALIA AND THE ASEAN REGION: ECONOMIC ISSUES

PART A Overview

3.1 It is clear that Australia's overall trading and investment opportunities in the ASEAN region are likely to continue to increase in concert with the on-going dynamism of most ASEAN country economies. At the same time, Australian business will need to meet serious challenges if it is to take full advantage of these opportunities. The following major points made in evidence to the Committee¹ illustrate these opportunities and challenges:

- (a) economic growth rates in ASEAN countries, except the Philippines, are expected in the medium term to resume being among the highest in the world (even if not as high as the rates of the past decade);
- (b) while Australia's trade with ASEAN has grown significantly in the past decade, this has been due mainly to the rapid growth in ASEAN economies and their resultant import demands: Australia's export performance, in terms of its share of ASEAN imports, has in fact been rather disappointing;
- (c) competition among exporters from Japan and other East Asian countries, the United States and Western Europe is likely to increase, putting further pressure on Australia's maintenance of its ASEAN market shares, which have been declining for more than a decade;
- (d) most ASEAN countries plan to increase their rate of industrialisation and are therefore expected to become important markets for exporters of technology, investment capital, technology-intensive goods and services including machinery, and raw materials including minerals for industrial processing (such as tin, iron ore and perhaps coal);

- (e) at the same time, ASEAN countries will have to maintain high export levels in order to afford the imports needed for their industrial development and to supply growing and possibly more affluent populations;
- (f) ASEAN import competition in the Australian market is therefore likely to grow across a broader range of manufactured products in increasingly capital-intensive areas;
- (g) economic co-operation and trade flows among ASEAN countries are likely to continue to be limited by their greater economic complementarity with external partners and by each ASEAN country's pursuit of its own aspirations in economic planning and trade relations;
- (h) if Australia is to take full advantage of growing export prospects in the ASEAN region, it will need to:
 - become more export-oriented, and more perceptive of aspirations and developments in Southeast Asia
 - anticipate and respond to changing trends in ASEAN economic development and import demands
 - identify and pursue opportunities for competitive Australian exports and services, and for investments in ASEAN countries especially joint ventures in manufacturing and construction
 - adjust production and export capacity accordingly
 - accept increases in competitive imports from ASEAN countries (or at least not operate trade barriers levels harmful to competitive ASEAN merchandise).

3.2 Parts B and C of this Chapter seek to assess the major trends in the economic and trading development of ASEAN countries - both individually and collectively - and the trade and investment opportunities these will present for Australia. Such assessment should entail a critical look at any likely limitations on Australia's ability to capitalise on those opportunities, such as trade barriers and the competitiveness of Australian exports. Australians live on the economic edge of a dynamic region: if we are to progress towards the economic centre, we shall need a greater understanding of the nature, needs and aspirations of the ASEAN region; at the same time, we must accept opportunities and effectively communicate Australia's interests to our regional neighbours.

PART B ECONOMIC DEVELOPMENTS IN THE ASEAN REGION

1. The National Economies

(a) Regional Overview

3.3 While the collective wealth of the six ASEAN countries, with a combined Gross National Product (GNP) in 1982 of about US\$202 billion, is not much greater than Australia's (US\$156 billion)², the rate of economic growth of each ASEAN country in the past decade has easily outstripped that of most industrialised countries - including Australia - and middle-income developing countries.³ For example, Singapore's real GNP increased from 1970 to 1981 at an average annual rate - in real terms - of 8.5%, while the Philippines' performance - ASEAN's lowest - was still 6.2%, over double the average for industrial market economies.⁴

3.4 Based on the rates of GNP growth over the five years 1979-83, ASEAN's combined GNP would be about US\$500 billion in the year 2000, whereas Australia's would be only US\$220 billion.⁵ An even more graphic illustration of recent economic trends (assuming they continue) is that the 'average' Singaporean will be significantly wealthier than the 'average' Australian by the end of the century.⁶

3.5 Most Committee witnesses⁷ expected lower economic growth rates for ASEAN countries during the remainder of the decade, mainly because of slower growth prospects of many of their industrialised trading partners. Nevertheless, economic growth rates in all ASEAN countries except the Philippines are still expected to continue well in advance of those for most other developing countries.⁸ One major implication for Australia is evident: the ASEAN region promises better opportunities for expanded Australian exports than do Australia's

traditional trading partners. At the same time, Australia's export competitors in Europe, the US and East Asia will also be striving to increase their penetration of the expanding ASEAN market. Whether Australia can benefit from these opportunities will be a major challenge for all sectors of Australian industry in the 1980s.

3.6 A number of witnesses⁹ cautioned that ASEAN should not be seen as one economy; rather, as six individual national economies at differing stages of development and presenting a variety of import and export opportunities. Indonesia's economic and trading system, with its less developed manufacturing sector, higher protection of local manufactures and reliance on petroleum exports, differs significantly from Singapore's 'open' economy with its export-oriented secondary and tertiary sectors and lack of natural resources. In Singapore, labour-intensive manufactures are being rapidly supplanted by higher-technology and value-added industries. Indonesia has ambitious plans for heavy and higher-technology industries. Thailand and the Philippines retain much of the traditional agricultural basis of their economies and export effort. Malaysia's economy is perhaps the best balanced between agriculture, commodity processing and labour-intensive but export-oriented manufactures.

3.7 Notwithstanding the differences among individual ASEAN country economies and their economic prospects (summarised later in this section), there are also numerous common features: generous endowment of natural resources [except in Singapore] and heavy dependence on their export; government policies to broaden economic bases (and improve employment) by industrialisation, initially by labour-intensive goods but supplemented increasingly by heavier industry; and government encouragement of foreign investment and joint manufacturing ventures. At the same time, all ASEAN countries face, in varying degrees, the problems of 'pressures of population on resources, poverty, infrastructural deficiencies [and] dependence on fluctuating commodity prices ...'¹⁰

3.8 During the 1960s and some of the 1970s ASEAN countries other than Singapore promoted labour-intensive, import-substituting manufactures. Faced with the problems of small-scale production, high unemployment and the inefficiencies of protecting local industry, most ASEAN countries began developing in the 1970s an export orientation for their manufacturing industry. The high degree of export orientation that developed is largely responsible for the high growth rates in the industrial sectors of ASEAN economies. Those industrial sectors averaged an annual growth of 9.2%, measured as a contribution to combined ASEAN GDP, from 1972 to 1981¹¹ - about double the rate for the agricultural sector (although this still employs over half the ASEAN workforce).

3.9 The export orientation of ASEAN economies is apparent by comparison with industrialised countries: whereas the latter's average annual increase for merchandise exports was 5.4% over the 1970/81 period,¹² the figure for Singapore and Thailand was about 12% (albeit from a lower base). Even Indonesia, regarded as one of the least 'open' of the ASEAN economies, bettered the industrialised average. Singapore and Indonesia each account for over 30% of ASEAN exports and Malaysia almost 20%¹³. While raw materials - notably petroleum, rubber, timber, tin, copra and palm oil - are still the major export earners from the ASEAN region, manufactured goods became increasingly significant.

3.10 The Treasury's summary of these export-orientation and industrialisation trends in ASEAN economies also highlighted some questions now facing ASEAN economic planners:

'Industrialisation, the promotion of labour-intensive manufactures and the search for export markets are the outstanding developments of the last decade; but several issues - the emphasis to be placed on agricultural development as against industrial development, the character of incentives for export-promoting industries as against those for import-substituting industries,

and the choice between natural-resource-based industries and labour-intensive manufacturing - continue to be open questions in all the ASEAN countries except Singapore....

... imports are likely to rise concomitantly with exports, both by virtue of the necessity for raw materials and components to supply manufacturing industries, and through ... rising national income and demand for imports. This can pose new problems for the management of the balance of payments.

... Capital requirements have grown greatly with more intensive industrialisation, placing greater demands both on the supply of domestic savings and on the capacity for obtaining capital from abroad.

... an increasing reliance on competitive ...exporting of goods and seeking of capital brings with it....a need for further diversification of exports markets and suppliers..."¹⁴

However, there remain import substitution industries - especially in the heavy capital-intensive sector - which ASEAN countries especially Malaysia and Indonesia regard as central to their national development and self-reliance (e.g. proposed steel making and oil refining). Some of the implications for Australia of these economic issues facing ASEAN countries will be considered in Part C of this chapter.

(b) Individual Country Economies

3.11 The following summary of the economic circumstances and prospects for each ASEAN country briefly notes some implications and opportunities for Australian trade and investment. A more detailed treatment of Australia's future interests in the ASEAN economies is included in Part C of this chapter.

Brunei

3.12 Brunei is unique among ASEAN economies: a small but wealthy nation relying almost totally on very substantial petroleum exports and foreign exchange investments, and lacking a manufacturing base and agricultural self-sufficiency. Despite per capita national income far exceeding Singapore's or even Australia's (about \$22 000 per annum),¹⁵ education and training levels are not yet adequate to reduce dependence on foreign managers and technicians or to broaden the economic base. Distribution of wealth is also uneven, which - together with the small population - will limit export prospects to Brunei. Japanese and Singapore merchandise comprises the bulk of Brunei's imports.

3.13 With income from petroleum accounting for about 80% of GDP,¹⁶ with most consumer demands satisfied by imports, and lacking a skilled indigenous labour force, Brunei's major economic challenge is to train its population and broaden its economic base. Despite a system of Government-funded overseas education - traditionally in the U K - the development process is likely to take at least a decade.¹⁷ Australia should be well placed to offer mutually beneficial educational and training services and, subject to the strength of Japanese and Singaporean market control, technology-intensive merchandise and services.

3.14 While Brunei has traditionally turned to the United Kingdom for education, economic investment and advice, there are some signs of change: the management of Brunei's investment portfolio, reported to be some US\$3.5 billion per annum,¹⁸ has been transferred from the United Kingdom Crown Agents to the newly-created Brunei Investment Agency, which now has Japanese and American financial consultants. If, as is thought,¹⁹ Brunei's foreign investment policy becomes less cautious and reliant on 'western' government bonds, Australia may become a

target for some of this investment. Already Brunei has a large cattle property holding in the Northern Territory for supplying the country's meat needs. However, assessments of Brunei's future economic relations are made difficult by the early stage in development of a Bruneian economic diplomacy. Whether Brunei will invest significantly in her ASEAN neighbours and develop as an economically useful member of ASEAN remain to be seen.

Indonesia

3.15 Indonesia might be described as the stirring economic giant among the ASEAN countries. With a population well in excess of 150 million, abundant natural resources and an economically ambitious Government, it is likely that Indonesia will become a more dominant economic force in South-East Asia after the current international recession ends and when the domestic economy 'takes off'. The generally optimistic forecast which follows must, however, be placed in the context of poverty levels that are still high, and of shortages of arable land and industrial jobs for a growing population.

3.16 Indonesia's economy - ASEAN's biggest (about 40% of combined ASEAN GDP) - grew on average almost 8% annually in the 1970's. The rate of growth suddenly fell to only 2.3% in 1982,²⁰ after the world recession had significantly reduced both the volume and unit value of its oil exports (which account for about 70% of export earnings). The economy developed balance-of-payments and budgetary problems and the Government reluctantly had to postpone development projects intended to contribute to Indonesia's eventual industrial self-reliance. These were to include an oil refinery, two petrochemical plants, an alumina plant, coal-mining projects, and a fully integrated steel industry. These are projects central to an ambitious plan for a heavy industrial base for processing Indonesia's raw material wealth. In addition, Indonesia's currency was devalued

28% in April 1983.²¹ These tighter economic policies, including some reductions in tariffs and the domestic oil price subsidy appear to have been successful: some pressure was taken off domestic and foreign debts and real GDP in 1983 is estimated by the World Bank to have grown 4.5%,²² a rate which is near the 5% target for the current five year economic plan (Repelita IV). Higher petroleum and rice production has also helped Indonesia's recovery.

3.17 Repelita IV also seeks to lessen the country's dependence on oil and gas and to increase exports of processed metals such as copper, nickel and aluminium. For repayment of foreign loans (now totalling about US\$20 billion) to remain manageable, the World Bank advised that non-petroleum exports need to be expanded significantly. Other important economic objectives are self-sufficiency in rice, increased plantings of other food crops away from Java, and increased production and efficiency of export commodities such as rubber, palm oil, timber, tobacco and pepper. As with other ASEAN economies dependent largely on commodities for export earnings, prevailing world prices (including petroleum) will have a significant influence on Indonesia's improving economic health, especially in the years before a significant part of its export income is derived from the slowly developing manufacturing sector.

3.18 Indonesia's manufacturing sector, comprising only about 15% of the country's GDP in 1983,²³ has been handicapped by numerous factors: high domestic protection, low productivity and export levels,²⁴ excessive reliance on the petroleum sector, and competition from other Asian exporters. Manufacturing, especially metals and engineering, is being given priority in government planning and is forecast to grow at almost 10% annually in the current five year period just commenced.²⁵ There is said²⁶ to be a real possibility that the Government will emphasise a program of expensive and possibly inefficient

import-substituting and higher technology industrialisation rather than the labour-intensive, export-oriented manufacturing which has proved successful in other ASEAN countries.

3.19 In the medium to longer term, the prospect is that the 'basic strengths of the Indonesian economy' will reinforce its 'capacity to manage and sustain a strong growth path',²⁷ especially if Indonesia succeeds in its plans to diversify exports away from petroleum. Recent substantial rises in non-oil commodity exports have been reported.²⁸ If this in turn allows increases or diversification of Indonesian imports, Australian suppliers of iron and steel, technical (including mining) equipment and consultancy advice, should benefit - if they are competitive. Given Indonesia's desire to develop a steel industry, there may be export opportunities for Australian iron ore and perhaps coal (subject to progress in the planned development of Indonesia's large coal deposits in Sumatra) Opportunities for Australian investment in Indonesia's proposed industrial development are discussed in Section 2 of Part C of this chapter.

Malaysia

3.20 Malaysia, like Indonesia, enjoyed an average annual GDP growth during the 1970's of about 8%,²⁹ a rate recently halved due largely to depressed prices for primary product exports (including petroleum, rubber palm oil and timber) on which Malaysia relies heavily. Similarly, in response to foreign debt service concerns, Malaysia recently reduced its high level of government spending on development projects. Important differences, however, between the two economies are Malaysia's greater export orientation and wider economic base - specifically its manufacturing sector which is now rivalling the agricultural sector in size. The Government is seeking to diversify Malaysian manufactures additional to the traditional textiles and clothing

lines. Industries being developed or planned include automotive components and assembly (particularly the ambitious 'national car' project assisted from Japan) raw material processing (e.g. rubber and tin) and heavy industry (for example, proposed oil rerining and steel working). Another recent approach to economic development is the Mahathir Government's 'Look East' or 'Malaysia Incorporated' policies, which are encouraging Japanese-style approaches to work ethic and organisation and to export trading houses.

3.21 External demand and prices for Malaysia's commodity exports will need to improve before its economic recovery can be assured. 'Over the longer term, however, the outlook is brighter. Malaysia's resource endowment is very strong and the general economic base is expected to continue to widen'.³⁰ Malaysia's economic performance 'should be considerably better than the performance of most other world economies'.³¹ Natural gas production and exports, especially to Japan and Singapore, are about to commence, and there are long-term reserves. Natural gas is also planned to become an energy source in the proposed heavy industry sector, which may reduce Australian coal export opportunities. As with Australian opportunities in most ASEAN countries, there appear good prospects for increased exports of foodstuffs, machinery and technical services. Prospects for joint Australian/Malaysian industrial and construction ventures also continue.³²

Philippines

3.22 The current economic situation and prospects for the Philippines are dominated by a large external debt (about US\$25 billion) and serious repayment problems, exacerbated by inflation and falling prices for primary products. The foreign debt and exchange crisis of 1983, when the Philippines Government declared an interim moratorium on foreign debt repayments, was a

serious economic setback which, when combined with the political instability at that time, resulted in the flight of much foreign investment capital, a severe shortage of foreign exchange and declining production. Given a realistic debt rescheduling agreement with the International Monetary Fund (still to be concluded as at September 1984) the return of adequate investor confidence, and appropriate economic management within the Philippines, positive economic growth rates may return near the end of this decade.³³ However, there remains a question whether there will be political and social stability necessary for popular acceptance of the strict economic measures appropriate for recovery.

3.23 Although manufactures account for about a quarter of overall national income, the economy - especially the export sector - is still primarily rural-based with about half the work force on the land and agricultural products constituting about one third the value of exports. Exports (mainly coconut products, sugar, copper and timber) constitute a lower proportion of national income than in Indonesia. The industrialisation process is generally lagging, and the Government has had to postpone plans for steel, aluminium and petro-chemical plants through lack of foreign currency.³⁴ The Philippines needs to import petroleum, machinery, metals, transport equipment and chemicals and this (especially petroleum) places a heavy strain on its balance of payments.

3.24 Opportunities for foreign exporters to the Philippines, including Australian, will be limited by the availability there of foreign exchange. The Committee notes that the Australian Government advanced \$50 million in export credits earlier this year, which is said to have been of considerable assistance to Australian exporters.³⁵ While the foreign investment climate remains uncertain joint ventures opportunities for Australian business will be limited. It will be an interesting example of

ASEAN regionalism if any of the Philippines' ASEAN partners are willing and able to assist its economic recovery. The Philippines has taken advantage of the ASEAN 'swap facilities' by borrowing \$US65 million in hard currency, which it has recently repaid.

Singapore

3.25 The Singapore economy is currently the strongest and most stable in the ASEAN region. From its independence in 1965 until 1982 growth in output averaged about 10% per annum and per capita income rose tenfold to US\$6000;³⁶ at the same time inflation remained low and the currency strong. Firm and sound economic management, combined with a highly productive and skilled labour force and an advantageous geographic setting near the centre of the dynamic ASEAN region, have encouraged high levels of domestic and foreign investment in secondary and service industries.

3.26 Another reason for Singapore's economic success is the flexibility of its planners in anticipating and overseeing necessary structural adjustments in Singapore's industries: Singapore was transformed from the late 1960's from primarily an entrepot trader to a dynamic exporter of manufactures and a major regional financial centre. In 1979, in response to the second international oil crisis and a tightening labour supply threatening to make labour-intensive exports less competitive, Singapore authorities set out to restructure the economy towards high value-added, medium-level technology industries.

3.27 Industries selected for promotion by Singapore authorities include high yield tourism (such as conventions), automotive components, machine tools and machinery, medical apparatus and instruments, speciality chemicals and pharmaceuticals, computers and software and precision engineering products. Singapore plans to become the technology service centre

of Southeast Asia and to extend its financial and business services to the region. It is likely that Singapore's enviable growth rates will continue, subject only to the economic fortunes of the ASEAN countries which are significant export markets for Singapore, and to eventual limitations imposed by Singapore's size and poor natural resource endowment.

3.28 Australia should be alert both to the competitive challenges from rival Singaporean exporters to the ASEAN region and to the export and investment opportunities offered by these developments for Australia's higher technology, education and business services sectors. Ample opportunities for a continuing high level of Australian investment in Singapore should be facilitated by the Australian Government's recent deregulatory policies towards overseas investment. Export prospects for Australian foodstuffs, both unprocessed (such as fruit, vegetables and meat) and processed (such as new products like wheat noodles) are good; bearing in mind however that the Singapore market, while increasing in affluence, is limited in size.

Thailand

3.29 Until the recent downturn in the world economy and in commodity prices, the Thai economy - like most others in the ASEAN region - had recorded a decade of significant growth (averaging over 7% GDP growth per annum).³⁷ The agricultural sector flourished and a manufacturing base developed. Not only is Thailand the only country in South-East Asia self-sufficient in food, but it is among the world's largest exporters of rice, rubber and sugar. Agricultural products account for about two-thirds of total export earnings. The labour-intensive industrial sector - producing mainly processed food, construction materials and consumer goods - has been steadily expanding in recent years.

3.30 Despite these good performances in the 1970s, Thailand's economic growth has become limited by a lack of new arable land and by foreign debt servicing and balance-of-payment problems due to Thailand's almost total dependence on imported petroleum. To assist in combatting Thailand's rising domestic deficit and external debt, the World Bank is now financing the Government's reforms to improve agricultural productivity, increase manufactured exports and reduce dependence on imported petroleum by developing Thailand's off-shore gas fields.

3.31 Balance of payments problems are likely to continue for so long as Thailand is heavily dependent on oil imports. Much will depend on how successful and timely is off-shore gas production, and whether Thai industry can increase competitive, labour-intensive exports. Economic prospects in the medium term are bright, and Australian business opportunities for selling machinery, base metals and iron and steel, as well as technical services, should increase. The proviso, as always, is that Australian exporters remain competitive with rivals from Western Europe, East Asia and North America.

(c) Summary Outlook

3.32 The recent slowdown in ASEAN countries' economic activity is already showing signs except in the Philippines, of giving way to resumed growth. Overall opportunities in the region (including East Asia) for Australian exporters, investors and advisers are still likely to be brighter than other regions in the world. Given the continuation of relatively high levels of ASEAN exports, and assuming manageable foreign debts (but not in the Philippines), the ASEAN region is likely to maintain a high level of demand for imported minerals, foodstuffs, metals and sophisticated manufactures including machinery, and for investment capital and expertise for their industrial development. At the same time, ASEAN countries will be seeking to

expand markets, including Australia's, for their growing export industries. Australian manufacturing industry is likely to face increasing competition over a widening range of more capital-intensive merchandise. The opportunity for significantly increasing Australia's involvement in ASEAN economic development is apparent but, at the same time, subject to challenges and limitations (detailed in Part C of this Chapter).

(2) ASEAN Economic Co-operation

(a) Machinery and Objectives

3.33 Economic co-operation among ASEAN members, with the object of improving the well-being and stability of the countries of the region, has always been central to ASEAN's stated objectives. However, serious challenges have confronted the members' numerous formalised attempts at closer regional co-operation, especially in the formative years of ASEAN: first, there were (and still are) fundamental differences in the characteristics of the various ASEAN economies, in particular Singapore (and also Brunei) are markedly different; second, the economies are more competitive than complementary; and third, the ASEAN Governments have each preferred to pursue their own approaches to national economic progress, rather than a regional approach. The restraints on closer ASEAN economic co-operation continue to cause concern among some influential business leaders and economists in the region. At the same time, however, numerous ASEAN officials and politicians appear pleased with the overall stability and resultant economic climate generally attributed to ASEAN (political) co-operation, and consider any free trade area as inappropriate for ASEAN economies.

3.34 The first stated aim and purpose of ASEAN in the 1967 ASEAN Declaration is 'to accelerate the economic growth of the region through joint endeavours ... in order to strengthen the foundation for a prosperous and peaceful community of South East Asian nations'. It is therefore most relevant, in assessing ASEAN's performance and prospects, to try to determine the degree of economic co-operation among ASEAN countries and the economic benefits which have accrued to them, and the implications for Australia.

3.35 Some examples of how 'joint economic endeavours' were to operate, were included in the Declaration of ASEAN Concord, 1976, as follows: Member states were to co-operate in supplying food and energy to members in times of critical need, and in importing food and energy from within the region. Industrial cooperation was to be furthered by large-scale ASEAN joint ventures to meet regional requirements for essential commodities, especially those (such as fertilisers) which increase food production or replace imports. Preferential trading arrangements for ASEAN members were to be a long term objective, 'on a basis deemed to be at any particular time appropriate, through rounds of negotiations subject to the unanimous agreement of member states'. Not surprisingly, such a cautious provision has been reflected in the very slow pace of the reduction of tariff barriers within ASEAN.

3.36 Despite ASEAN co-operative machinery and objectives, intra-ASEAN trade still does not exceed 15% of the total value of ASEAN countries' trade³⁸ (contrasted with about 50% for the EC). ASEAN countries have maintained their tradition of exporting outside the region, where economies are more complementary than the ASEAN economies. Indeed, one of the provisions of the ASEAN Concord is that members 'shall accelerate joint efforts to improve access to markets outside ASEAN for their raw materials and finished products by seeking the elimination of all trade barriers in those markets'. Greater ASEAN priority has been given to seeking to expand such external trade.

3.37 In assessing ASEAN economic co-operation, the following four types of co-operation will be examined: trade liberalisation, industrial co-operation, resource management, and financial co-operation.

Trade Liberalisation

3.38 The ASEAN Preferential Tariff Agreement (PTA) was adopted in 1976 to promote intra-ASEAN trade inter alia through exchange of tariff concessions, and liberalisation of non-tariff barriers. The development of lower tariff barriers among ASEAN countries pursuant to the PTA has, however, been a disappointing vehicle for promoting intra-ASEAN trade. While over 18 000 items have been listed since 1976 to attract tariff concessions (originally 10% now 20% minimum reductions) most of these items are little traded among ASEAN countries.³⁹ Moreover, member countries have been unilaterally excluding 'sensitive items' from the general categories attracting tariff cuts, as the 1980 revised scheme allowed, so as to eliminate most potentially traded items. The scheme was revised again in 1983 and 1984, when product categories such as textiles, chemicals, rubber, cement products, food products, beverages and tyres were added to the PTA scheme. Despite the attempted improvements to the PTA scheme, it is reported ⁴⁰ that only 2% of total intra-ASEAN trade benefits from the PTA scheme. According to the Department of Trade, 'ASEAN has not up to date been able to quantify the extent to which these concessions and reductions have contributed to an increase in intra-ASEAN trade'⁴¹

Industrial Co-operation

3.39 The ASEAN Industrial Projects (AIP) scheme was agreed by ASEAN Governments in 1976 as a way of promoting industrial joint ventures among the member countries (and achieving region-wide

economies of scale and tariff cuts under the PTA) in the manufacture of products important to regional economic development. Indonesia and Malaysia were allocated urea (fertilizer) projects, Thailand a soda ash plant, Singapore was to manufacture diesel engines, and the Philippines was to manufacture superphosphate. To assist the AIP scheme, Japan in 1977 pledged US\$1 billion in concessional loans.

3.40 Progress, however, has been slow: nine years later the only project completed is the urea plant in Indonesia, opened in January 1984. The other fertilizer project, in Malaysia, is scheduled for completion in 1985. The Thai soda ash plant and the Philippines copper plant (successor to two earlier, subsequently abandoned, proposals have yet to proceed beyond the feasibility stage. Singapore's diesel engine project was abandoned after Indonesia had claimed it threatened local industry. After then virtually opting out of the AIP scheme by taking only the minimum 1% equity in each of the projects, Singapore recently proposed a hepatitis B vaccine plant in Singapore. This was agreed by ASEAN in May 1984.

3.41 Singapore has consistently expressed reservations about regional economic schemes on the basis that they impede free market operations (such as cheaper imports from outside ASEAN). It has been reported ⁴² that 'Singapore had little to lose by proposing the vaccine plant as its AIP at this stage. For one thing, AIP's are not likely to proliferate: chances are that the current five projects will be the first and the last, barring a very major change of outlook among ASEAN leaders'. Most other ASEAN countries have had their own difficulties in accepting AIP projects, for example to take minimum proportions of project output, often in order to protect local industry. The Treasury submission mentioned particular difficulty for the member governments in agreeing on the size of their investments in each other's projects, and the degree or preference to be extended to

the products of each project by the other ASEAN members.⁴³ It seems that the AIP scheme will be eventually replaced by the private sector-oriented ASEAN Industrial Joint Venture (AIJV) scheme, detailed below.

3.42 There have been moves for greater ASEAN private sector involvement in regional economic cooperation. Under the original ASEAN Industrial Complementation (AIC) scheme introduced in 1976, a certain industrial sector or package of products is to be identified through the ASEAN Chambers of Commerce and Industry for complementary development on a regional basis and with intra-ASEAN tariff preferences. Only automotive products have been identified and progressed to date, despite apparent attractions such as regional sharing of scarce industrial capacities and combining markets. Competition to host projects, reluctance to share markets, and the need to obtain government commitments to investment and tariff preferences have slowed the co-operative process.⁴⁴

3.43 The latest private sector program, largely in response to the disappointing progress with the AIP and AIC schemes, is the ASEAN Industrial Joint Venture (AIJV) projects. This is to be a form of private sector equivalent of the AIP, but will require only two ASEAN country joint venturers to take a majority equity. A proposal no longer needs be presented to and approved by all governments. The basic AIJV Agreement of November 1983 will require those ASEAN countries with joint venturing participants to give at least a 50% preferential tariff margin for the AIJV product traded between (or among) those countries up to four years after manufacturing commences. In that time, similar non-AIJV products from other ASEAN countries will not enjoy concessional tariffs.

3.44 At the Sixteenth Meeting of ASEAN Economic Ministers on 7 - 9 May 1984, only four of 21 AIJV projects originally proposed some years ago were confirmed; these comprise mainly automotive

components. While 'the AIJV would seem to offer considerable potential for ASEAN economic co-operation',⁴⁵ it is too early to assess whether ASEAN co-operation at the private sector level will be sufficient to promote intra-ASEAN trade and investment. Improvements seem unlikely, however, unless ASEAN Governments are willing to reduce their emphasis on protecting their own national industries at the expense of rationalised regional production and market sharing. The opportunity for foreign joint ventures to take up to 49% equity, and gain a concessional market position within ASEAN, is hoped to attract a good deal of foreign investment.⁴⁶

Resource Management⁴⁷

3.45 The energy resources and potential of the ASEAN region are impressive, and their development by regional co-operation and consultation will minimise the risk of wasteful duplication and maximise the efficient matching of demand and supply. In 1983 the ASEAN Economic Ministers agreed to commission a study on coal (as distinct from petroleum) for power development in the region. The ASEAN-Australia Economic Co-operation Program is also supporting coal studies. Also adopted were ten co-operative projects among national utilities concerning nuclear power development, standardisation and electric power information. Bilateral co-operation between Singapore and Malaysia, and Singapore and Indonesia is directed to supplying off-shore oil and natural gas for Singapore's power and petrochemical needs. There is also an Emergency Petroleum Sharing Scheme for the ASEAN region. However, Indonesia's and Malaysia's plans to establish oil refineries, to reduce their dependence on Singapore, is again indicative of the tendency already noted to place national self-reliance above intra-regional complementarity.

Financial Co-operation⁴⁸

3.46 Co-operation in finance and banking is significant, though not as publicly recognised as ASEAN's industrial co-operation. The ASEAN Swap Arrangement, first established in 1977, provides standby hard currency credit to each member country of US\$40 million for up to six months. It has been extended until 1987. The Philippines has recently borrowed (and repaid) US\$65 million from the central pool. The ASEAN Finance Corporation, the investment banking arm of the ASEAN Banking Council formed in 1981, has stepped up its lending activity. In less than a year it had approved co-financing of five loans totalling about US\$56 million. The Corporation also has plans to develop financial cooperation with the EC through Interact, an association of EC development banks. Other proposals for developing financial co-operation were made by the ASEAN Task Force, discussed further in section (b).

(b) Assessment of ASEAN Economic Co-operation

3.47 Despite the formally-enshrined principles of ASEAN economic co-operation and the plethora of co-operative schemes, there was considerable querying by witnesses as to whether significant benefits have accrued to the ASEAN region. The recent establishment by ASEAN itself of an expert high level task force (ASEAN Task Force) to review and report to Governments on the state of their co-operation, and on what improvements should be considered, is indicative of the concern of at least some of the region's politicians and planners.

3.48 As mentioned above in section (a), it seems doubtful whether there will be further AIP projects. While the AIJV may yet prove to be an effective successor to the AIP scheme, the relatively low volume and proportion (15%) of intra-ASEAN trade

is still reported as largely unaffected by the various ASEAN co-operation schemes. This is not surprising when one considers that the PTA (tariff preference) scheme still only applies to about 2% of intra-ASEAN trade. Whether the products of any of the AIP schemes will prove significantly cheaper than, and as reliable as, imports remains to be seen. Singapore in particular is concerned to minimise the cost of imported components for its manufactured exports.

3.49 In looking for underlying explanations of the slow development of ASEAN economic co-operation, numerous witnesses referred to the lack of complementarity between most ASEAN economies, to the differences in economic development and trade policies among the countries, and to the promotion by most ASEAN countries of greater individual self-reliance by import substitution. For example, the Treasury submission commented:

'Where the ASEAN countries have sought closer economic integration, it has been either to increase their self-reliance in the face of external upsets, or to gain for new industries the economies of producing for a five-country market ... However, the use of preferential tariffs, and the preferential treatment of joint industrial projects, also contains the risk of diverting trade away from partners outside ASEAN, and thus sacrificing the advantages of multilateral trade for the lesser advantages of trade within a group of countries which lack a close complementarity in their economies (with the exception provided by the industrialised economy of Singapore) ... This consideration is fully appreciated by the governments of the ASEAN members, and it has been one constraint on the pursuit of internal economic integration. Another constraint lies in the obvious differences in levels of industrial development - particularly between Singapore, the industries of which are competitive internationally, and Indonesia, which maintains high levels of import protection for almost all its manufacturing industries ...'49

While the strong economic performances and prospects for most ASEAN countries have benefitted from the relatively stable political and strategic environment engendered by ASEAN

co-operation, they are not due to ASEAN economic co-operation as such; which has not yet resulted in any significant expansion of trade and investment within the ASEAN region or in a rationalised development of the region's resources and industries.

ASEAN Task Force Review

3.50 The differences of opinion within ASEAN on regional economic co-operation are illustrated in the recent ASEAN Task Force review process. The review itself and its reported recommendations appear⁵⁰ to be both comprehensive and concerned to progress regional co-operation. The Australia-ASEAN Business Council (Australia Section) referred to the Task Force Report as a 'timely study [which] should strengthen the impetus towards greater economic co-operation'.⁵¹ Among recommendations reported were:

Trade co-operation

- . Inclusion of items on preferential tariff exclusion lists should be minimized.
- . Other, non-tariff instruments of preferential-trading arrangements - long-term quantity contracts, purchase-finance support, regional preferences in government procurement and liberalisation of non-tariff measures - should be more actively used.

Industrial cooperation

- . Allow duty-free import and export of raw materials for ASEAN projects.
- . Extend national treatment to investors who are nationals of participating member countries.

- . Streamline procedures governing the approval of AIP and AIJV projects; allow a zero tariff rate for the products of these projects, and a common external tariff rate for the same product from non-ASEAN sources.

Finance and banking

- . Lower-cost financing for intra-ASEAN trade
- . Study the feasibility of a limited ASEAN payments union to facilitate intra-ASEAN investment and trade.
- . Establish an ASEAN export-import bank as a joint venture of all member countries.

3.51 Despite the apparent comprehensiveness and moderation of the Task Force's recommendations, the official response to this review has so far reflected cautious governmental attitudes within ASEAN. The ASEAN Economic Ministers at their May 1984 meeting appeared either not to have accepted many of the Task Force's reported recommendations, or - more likely - to have postponed consideration of them. The references to the recommendations in the Ministers' Joint Press Release were both few and subdued:

'On matters related to tariff preferences exchanged under the PTA, the exchanges [of preferences] among member countries should continue on the basis of non-discrimination...

With regard to the first set of AIPs, it should be continued and the procedures governing its implementation be streamlined.

With regard to the recommendations on the ASEAN Machinery, the ASEAN Secretariat be provided with adequate staff and funds.'

Prospects for ASEAN Economic Co-operation

3.52 Efforts to seek reduction of trade barriers among ASEAN countries and promotion of industrial complementation have to date been largely outweighed by ASEAN governments placing greater emphasis on national self-reliance, on development of policies of import substitution and industry protection and on continuation of strong extra-regional trade flows. There appears little possibility that ASEAN will develop into any form of free trade area or customs union.

3.53 The differences in emphasis between the regional co-operation and the individual national development approaches were summarised as follows by ASEAN Task Force Chairman Anand Panyarachun:

'... Asean is in a dilemma. One school of thought is that for Asean to have progressed this far is already a major achievement and no radical ... measures should be instituted which would bring about fundamental differences and approaches - thereby resulting in division of political unity and regional harmony. The other school of thought ... advocates a more forward-looking attitude ... with a view to turning Asean into a credible regional economic organisation.'⁵²

The Asia 1984 Yearbook commented as follows:

'Apart from Singapore, they [ASEAN countries] produce similar primary and consumer products. ... Singapore and Indonesia are at the opposite ends of the spectrum: ... Indonesia has a huge domestic market which it is anxious to protect. Unless such differing priorities, and a general protectionist attitude, can be substantially reconciled in the name of economic cooperation, Asean will remain primarily a political union ...'⁵³

3.54 It appears that an increasing number of ASEAN businessmen and analysts want ASEAN governments to give higher priority to intra-regional economic co-operation. Their arguments, that all ASEAN countries stand to benefit at least in the medium or longer term from lowered trade barriers and other incentives for private sector co-operation, seem slowly to be

gaining some currency in government circles. The very holding of the Task Force review, and its report into ASEAN's performance and recommendations for revitalizing intra-ASEAN trade - now on the ASEAN record - are indicative of this, as is the recently introduced and flexible AIJV scheme. A noted ASEAN-based economist told the Committee that 'Although there has been very little progress on the economic front in recent years one finds that things are beginning to move a little faster'.⁵⁴

3.55 The implications for Australia of what the Committee assumes will be slowly increasing economic co-operation among ASEAN countries are difficult to forecast and were addressed by few witnesses. On the one hand, enhanced co-operation in import substitution should raise ASEAN's self-sufficiency and reduce its reliance on imports. On the other hand, allowing comparative advantages within ASEAN to increase industrial efficiency and output should increase ASEAN's capacity and need for other imports, and could eventually result in cheaper merchandise exports to trading partners such as Australia.

3. ASEAN in the World Economy

3.56 With only a small proportion of their trade within the ASEAN region, and with large external trade sectors in most member economies, ASEAN countries have a special interest in a relatively free international trading system. A number of witnesses, including Trade and Treasury, emphasised the common external interests of ASEAN countries:

'..there are enough economic characteristics in common among the ASEAN countries to give them a number of similar external interests, and a basis for cooperation in their external economic relations ... All of their economies are sustained in their rapid development by

high rates of capital formation including foreign direct investment. Each economy ... will continue to have a considerable need for foreign technology, and ... capital goods and certain raw materials to develop infrastructure and manufacturing industry; ...The prospect of sustained growth in export earnings is essential to their investment strategy ... As relatively open economies the ASEAN nations are particularly affected by fluctuations of economic activity in trade partners and in the world economy generally, by protectionism, and by exchange-rate instability. Hence the ASEAN countries' considerable interest in the stability of the international economic system.⁵⁵

3.57 At least three features of ASEAN's involvement in international trade are significant for Australia's interests and its relative role in regional trade and investment:

- (a) ASEAN countries' strong trade and investment patterns with their long-established major partners - Japan and other industrialised East Asia countries, the US and certain Western European countries;
- (b) ASEAN's bloc approach in certain international trade negotiations and discussions; and
- (c) ASEAN attitudes to proposals for enhanced forms of regional economic co-operation such as the various Pacific Community concepts.

(a) ASEAN Trade Relations with Third Countries

3.58 It is instructive to contrast ASEAN-Australia trade and investment flows with the far greater flows between ASEAN and Japan, the US and West Europe. The relative shares of ASEAN's total import and export trade are as follows:⁵⁶

Japan	21%
US	15%
Europe	13%
Australia	2%

Japan's dominance is evident in all countries other than the Philippines which enjoys close traditional trade ties with the US. It is also significant that Japan, the US and Western Europe have been performing better than Australia in maintaining their shares of the ASEAN import market. This disappointing feature of Australia's export performance is discussed in Part C of this chapter.

3.59 The relative importance of ASEAN's trading partners is similarly reflected in their shares of foreign investment in ASEAN countries. Bureau of Industry Economics (BIE) figures⁵⁷ suggest that Japan's share, between 25% and 35% in each country other than Singapore, is about double the average for the US and EC respectively: in Singapore and the Philippines American investment is highest. Australia's average investment is less than 3% of total foreign investment in each country. While contributing relatively high levels of overseas aid to the ASEAN region, on per capita basis, Australia's total contribution cannot compare with Japan's, the United States' or the European Communities'. Those countries also have much larger mixed credits budgets for assisting the participation by their export industries in major capital projects. Australia's dialogue partnership is strong, however, and not at present subject to the degree of market access discord being experienced by Japan and the US.

(b) ASEAN Involvement in International Trade Issues

3.60 ASEAN's role in external economic diplomacy is generally regarded as much more successful than in intra-regional economic co-operation. The ASEAN group of countries has enjoyed relative success and increasing influence when negotiating international

trade issues of common interest. ASEAN's group criticisms of inadequate trade access for its exports to developed countries, especially its 'dialogue partners' including Australia, are taken seriously by those countries. As the Treasury commented in its submission:

'... a most important aspect of ASEAN is as an association for economic diplomacy ... ASEAN has proved an effective means of bringing its members' combined bargaining power to bear on Japan, the USA, the EC, Australia and other economic partners. In particular, the combined weight of ASEAN has been used in pressing for access to developed countries' markets for the manufactured exports of its member countries, and in countering protectionism. This can be done with relatively little conflict of interest among ASEAN's members.⁵⁸

3.61 The International Civil Aviation Policy (ICAP) dispute with Australia is another example of the success ASEAN has achieved in seeking freer market access.⁵⁹ Such success in part reflects developed countries' perception of the importance and potential of trade and investment with ASEAN. At the ASEAN-dialogue partner talks in July 1984, Japan 'faced with criticism over ASEAN's restricted trade access to the Japan market ... agreed to hold an economic conference with ASEAN ministers in 1985'.⁶⁰

3.62 Also at the annual discussions in 1984 between ASEAN and her dialogue partners, the ASEAN Foreign Ministers expressed their disappointment that the London economic summit had not been more forthcoming on issues of particular ASEAN concern, such as trade liberalisation, trade in commodities, financial flows and foreign debt problems.

3.63 Similarities in external trading interests among most ASEAN countries are an important basis also for common or co-ordinated ASEAN approaches in international producers' associations and commodity agreements, and in global economic

forums such as GATT and UNCTAD.⁶¹ ASEAN and ASEAN countries have become important developing country representatives in the campaign to improve access to developed country markets for primary products and labour-intensive manufactures. Indeed, Australia and ASEAN share a degree of common interest especially in facilitating international trade in commodities. This is reflected in the apparent consensus between Australia and ASEAN countries, initiated by the Australian Government, that a common regional strategy should be developed on commodities for the next round of Multilateral Trade Negotiations.

(c) ASEAN and 'Pacific Community' Proposals

3.64 The great economic potential of the ASEAN (and East Asian) regions and the relative failure to date of efforts to reduce global trade barriers and protectionism has helped focus Australian attention on the various 'Pacific Community' concepts for planning better trading arrangements among countries of the Pacific Basin.

3.65 The last three or four years have witnessed intensifying interest, especially on the part of the United States and Japan, in discussing proposals for various types of Pacific economic co-operation: these have ranged from a free trade area to more modest - and feasible - proposals for trade and manufacturing arrangements to take advantage of economic complementarity in the region. ASEAN countries - especially Indonesia - have taken a cautious view of such proposals, preferring instead to develop their own economic co-operation (which, as noted, has been slow and limited). There has also been concern about the risk of domination or undue influence in any Pacific community by the major economic powers and about membership that might extend to Asian countries with which some ASEAN countries have strained relations.

3.66 However, there are some signs of readiness by ASEAN countries, including Indonesia, to discuss more limited concepts of Pacific Basin co-operation. As Professor Arndt noted,

'They [the ASEAN countries] are more cautious than the developed countries that are involved, but I think something is happening'.⁶²

Indeed, ASEAN initiated a cautious proposal on wider regional economic co-operation at its annual ministerial meeting in July 1984. According to the joint communique, President Soeharto 'touching on the need for ASEAN to co-operate with the countries in the Pacific region, ... hoped that through consultation with those countries the present trends would lead to co-operation among the Pacific countries'. At the July 1984 discussions between ASEAN Foreign Ministers and ASEAN dialogue partners other than the European Communities ('a Six Plus Five Meeting'), the Indonesian Foreign Minister is reported to have unveiled an ASEAN initiative which he described as the 'human resources development co-operation program'. This involves the establishment of a training program based on existing institutions and facilities which would be of immediate benefit to users from the Pacific region. The initiative received support from all five Pacific dialogue countries. The initiative will again be discussed at the 1985 dialogue talks. The 'Six Plus Five' meeting was proposed to become a permanent feature of the talks providing a forum for discussing Pacific co-operation, but avoiding an institutional approach and the bureaucracy which might accompany it.

3.67 Malaysia's Foreign Minister is reported to have said at the 1984 dialogue talks 'We should no longer be limiting our efforts within ASEAN to build up our strength and regional resilience.⁶³ In a speech to the National Press Club, Canberra, in August 1984, the Malaysian Prime Minister stated that:

'... Malaysia is greatly encouraged by the decision taken in Jakarta to explore and expand further the concept of cooperation between ASEAN and our Pacific Dialogue partners. ... It is typical of the

ASEAN approach - which is pragmatic and down to earth that the concept of a broader regional cooperation in the Pacific region took the form of a decision to expand present cooperation with the Pacific dialogue partners rather than a pronouncement on some grandiose schemes of future collaboration in the vast Pacific region ...'

3.68 Whether ASEAN's Pacific co-operation 'initiative' suggests an emerging consideration by ASEAN decision makers that Pacific economic arrangements, with appropriate geographic and functional limits, might prove worthwhile - in addition to ASEAN's own intra-regional community - is open to speculation. While there might be more economic justification for giving greater ASEAN priority to external co-operation, there continue to be important regional political considerations for concentrating on ASEAN co-operation. One interpretation is that, at least for the interim, ASEAN is signalling an interest merely in having discussions on economic strategies and issues of shared interest in its neighbourhood, and that these ideas are little more than a restatement of primarily ASEAN-centred regional proposals sufficiently general to maintain ASEAN flexibility in responding to any further developments in the major powers' 'Pacific Basin' philosophies. Nevertheless, the Committee considers that regular discussion of Pacific Basin co-operation among ASEAN, Australia and the other dialogue partners will assist towards longer term planning for trade and investment in the region, and in the development by Australia of an appropriate economic strategy and role in the region.

3.69 Another, somewhat different, indication of regional planning is a scenario introduced by Malaysia's Prime Minister, Dr Mahathir, at the Australia, ASEAN and Japan symposium held in Kuala Lumpur in May 1984.⁶⁴ He speculated about trilateral industrial and trading co-operation between ASEAN, Australia and Japan. In this proposal ASEAN countries would be a half-way house for intermediate processing of Australian raw materials, which would then be used in higher technology industry in Japan for re-export to the region: in other words, one strategy for

maximising what he perceived to be comparative advantages within the region of Australian resources, cheap ASEAN labour (and energy) and Japanese technology and marketing. Dr Mahathir also referred to a need for protectionist barriers among the three parties to be 'gradually dismantled' before there could be 'meaningful economic relations'. Where manufacturing is undertaken by joint ventures involving ASEAN, Japanese, and Australian companies, buy-back arrangements involving reduced trade barriers should be encouraged in order to provide ready markets which, in turn, would support large-scale production.

3.70 In his submission to the Committee, Mr Healey commended the proposal made by Sir John Crawford for establishing an Australian-Pacific Co-operation Committee to advise the Government on Australia's economic co-operation with neighbours in Asia and the Pacific. Mr Healey also stated that

'It would be desirable to ensure that the work of the ASEAN-Australia Economic Co-operation Program be integrated with the Australian-Pacific Co-operation Committee - should the latter come into being. This would ensure that the Australia-ASEAN relationship is understood as being but a component - albeit a major one - of the broader "Pacific Community".'⁶⁵

3.71 The implication for Australia of the various types of Pacific (or West Pacific) Rim proposals are largely beyond the scope of this Report. In general terms, it is likely that any encouragement of economic complementarity and freer trade within the region should benefit the economies of the region. Australia would also stand to benefit,⁶⁶ at least in respect of its primary product and commodity exports. However, any Australian economic role limited mainly to primary sector exports - as Dr Mahathir's proposal might suggest - would be unsatisfactory in the Committee's opinion. Australia should also expect to benefit from any re-structuring of its manufacturing sector and from the development and export of higher technology merchandise and services.

PART C AUSTRALIA AND THE ASEAN ECONOMIES

3.72 The combination of continuing economic growth in the ASEAN region, and the challenges and opportunities for Australian involvement in that development, is well illustrated by the following excerpt from the Foreign Affairs submission:

'The key question in ... Australia's future economic relations with ... the ASEAN region is to what extent Australia will be able to take advantage of the opportunities opened up by rapid economic change and development in the region and, in so doing, both contribute to and benefit from that process.'⁶⁷

1. Aggregate Trade Flows⁶⁸

3.73 In assessing the trends in Australia-ASEAN economic relations and anticipating how to maximise further mutual opportunities, it is helpful first to summarise and explain trade flows over recent years, by reference to departmental submissions:⁶⁹

- . 'The development of Australia's two-way trade with the ASEAN countries has been impressive in quantitative terms - growing from A\$487 million in 1972/73 to A\$3.43 billion in 1983/84,⁷⁰ equivalent to an annual average increase in real terms of over 8%.⁷¹
- . 'Australian exports to ASEAN grew at an average rate of 15% per annum [from 1978/79 to 1983/84], compared with [the growth in total exports] 11.7%. At the same time, imports from ASEAN grew at an annual average of 14.1%.'
- . 'Taken together the ASEAN countries constitute Australia's fourth largest trading partner, both for imports (5.2% of all Australian imports) and exports (8.8%).
- . However, 'so far as ASEAN's total global trade is concerned, Australia remains a minor supplier and purchaser accounting for only 2.6% of ASEAN exports and providing only 3% of her imports (1981 figures). [In 1983 these figures were smaller - 1.7% and 2.5% respectively.] In a trading sense,

therefore, ASEAN is far more important to Australia than Australia is to ASEAN".'

3.74 The 1983/84 trading year witnessed a considerable reduction in Australian imports, largely resulting from much lower petroleum purchases from Indonesia and Brunei. A 47% drop in Indonesian imports, compared with the previous year, resulted in the first merchandise trade surplus with Indonesia for some years. Whereas in 1982/83, ASEAN countries sourced 7.1% of Australian imports, the figure for 1983/84 fell to 5.2%.⁷² The year was marked also by a good improvement in two-way trade with Thailand and by significant increases in Australian exports to Brunei and Singapore.

3.75 It has been emphasised that 'ASEAN, which is essentially a political organisation, has tended to divert attention from the fact that ASEAN countries remain ... six individual markets'. 'Strong emphasis' should therefore be placed on Australia's bilateral trade links, although there are 'important collective ASEAN components' in Australian trade relations.⁷³ Similarly, it is likely that ASEAN countries will continue to take a primarily bilateral perspective on economic relations with Australia. While trade access has been an ASEAN group issue, individual ASEAN members have also criticised Australia bilaterally for its continuing merchandise trade surpluses.

3.76 While Australia now enjoys bilateral merchandise trade surpluses with all ASEAN countries, its overall region-wide surplus with ASEAN has traditionally been offset by a net invisibles deficit. For example, Australia's \$180 million balance of trade surplus in 1981/82 [latest figures] reduced to a \$365 million deficit on current account.⁷⁴ The invisibles deficit 'largely reflects Australia's relatively unfavourable shipping costs vis-a-vis the ASEAN countries, the repatriation of [ASEAN] earnings derived from investment in Australia and the substantial level of Australian travel in and through the ASEAN region.'⁷⁵

2. Bilateral Trade Flows and Prospects

3.77 Current two-way merchandise trade and investment will now be summarised for each ASEAN country together with the Trade Department's future trade outlook. Trade in services and its considerable potential is regarded by the Committee as warranting special treatment later in this chapter.

(a) Brunei

3.78 The level of Australia/Brunei trade has traditionally been small - only \$22.8 million two-way trade in 1982/83 - with Australian imports of crude petroleum generally dominating the total trade. Australian exports totalled \$6 million in 1982/83, in contrast with \$16.8 million for imports (almost all crude petroleum). Australia's exports have shown steady growth albeit from a very small base. The main items in 1982/83 were: live animals (\$1.7m); beef and veal (\$0.5m); vegetables (\$0.3m); fruit and nuts (\$0.3m); passenger motor cars (\$0.3m) and non-alcoholic beverages (\$0.3m). In 1983/84, when Australia imported no Bruneian petroleum, total two-way trade plummeted to only \$8 million, composed almost entirely of Australian exports.

3.79 The total Brunei import market is relatively small (US\$890 million in 1982) and is dominated by Singaporean and Japanese exporters. It has been impeded by the slow development of industries outside of the petroleum sector, and by the uneven distribution of wealth within Brunei, which affects consumer demand and import volumes. It is not expected therefore that Australia's exports to Brunei will expand significantly in the immediate future. If, however, the Brunei Government's longer term plans for diversification of industry outside of the petroleum sector can be realised, significant opportunities may arise for Australian exporters prepared to compete with traditional suppliers from Singapore and Japan.

3.80 Australian investment in Brunei is negligible, with only a handful of Australian firms currently having representative offices in the country. The reportedly large number of foreign investment and trade inquiries made to Brunei since independence include potential Australian investors.⁷⁶ In late 1981 the Brunei Government purchased the long term lease of a property in the Northern Territory, where live cattle are being raised for shipment to Brunei for Islamic ('halal') slaughter. There are prospects for further Bruneian investment in Australia, and these are discussed in Part B, Section 1(b) of this chapter. Bruneian education and training needs are considerable, in the absence of a skilled work force needed to diversify the economy. Prospects that Australia may enhance its role as a regional centre for advanced education of foreign students are discussed in Chapter IV.

(b) Indonesia

3.81 The value of two way trade between Australia and Indonesia increased significantly from \$280.4 million in 1977/78 to \$946.5 million in 1982/83 before falling to \$696 million in 1983/84 when Australia's oil imports nearly halved. In that period Australia's exports to Indonesia increased steadily from \$196.3 million to \$396 million in 1983/84. Imports from Indonesia grew markedly from \$84.1 million to \$561.6 million (1982/83) before falling to \$300 million in 1983/84, which emphasises that oil imports comprise over 90% of Australian imports from Indonesia. Australia traditionally supplies wheat, refined petroleum products, dairy products, metal ores and concentrates and Indonesia contributes crude oil, coffee, tea and rubber. The mutual importance of each country to the other as trading partners remains relatively small. In 1982/83 Indonesia was Australia's sixteenth largest export market and ninth largest source of imports. The 1983/84 pronounced fall-off in Australian import of Indonesian crude oil, through a

combination of increased availability of local crude and a reduction in domestic consumption of refined products, underlines the disappointing extent to which the trade relationship has continued to depend on petroleum products.

3.82 Nevertheless, Indonesia represents a large potential import and export market close to Australia. Export opportunities for Australia include foodstuffs (especially wheat), raw materials and semi-manufactures, as well as machinery and equipment to assist with Indonesia's economic development. Australia's exports to Indonesia can therefore be expected to increase significantly in the longer term, but may be limited in the short term by current Indonesian economic stringency and in the longer term by any continuation of the uneven distribution of wealth within Indonesia. Indonesia's exports are expected to continue to be dominated by crude oil, coffee, tea and rubber, with longer-term prospects for increased manufactured exports dependent on the development of an export orientation for Indonesia's ambitious secondary industry development program.

3.83 It is thought that the total value of Australian investment in Indonesia including retained earnings is in excess of \$180 million,⁷⁷ a modest amount less than Australian investment in Malaysia. Around 50 Australian firms are involved in joint ventures in Indonesia, mainly in manufacturing and processing items such as cement products, industrial gases, glass containers, metals and aluminium products. It is likely that many Australian businesses view the Indonesian commercial environment as more regulated and not quite so familiar as in Singapore and Malaysia.⁷⁸ It has also been noted by an Indonesian bank president that 'Australian bankers are poorly represented in Jakarta and vice versa and there are no comprehensive trading houses linking both countries'.⁷⁹ Other factors which may limit what otherwise might be expected to be

highly promising investment opportunities in Indonesia include recent legislative changes to reduce 'tax holiday' benefits for foreign investors, continuing official policies to 'localise' jobs previously held by expatriates and government encouragement for higher levels of domestic saving and investment. Nevertheless, foreign investment and expertise will continue to be needed if Indonesia is to satisfy its ambitious industrialisation strategies. Indonesian investment in Australia is negligible.

(c) Malaysia

3.84 Two way trade between Australia and Malaysia has grown slowly since 1979/80 after significant growth throughout the 1970s. Nevertheless, the value of two-way trade in 1983/84 was \$726 million, replacing the Australian-Indonesian trade as the second highest in value between Australia and an ASEAN country. The trade imbalance in Australia's favour rose throughout the 1970s to reach \$265.5 million in 1982/83, but this reduced to \$212 million in 1983/84 after a 20% increase in Malaysian exports to Australia. Significant imports of Malaysian crude petroleum have restrained the trade imbalance, of which Malaysia continues to be critical and which could increase if Australia were to become a major minerals and energy (e.g. iron ore and coal) supplier for Malaysia's planned steel and petrochemical industries.

3.85 Australia's exports to Malaysia remain dominated by sugar, tin, and to a lesser extent wheat. Principal imports from Malaysia are crude petroleum, wood and railway sleepers, animal and vegetable oils, palm oil, natural rubber latex, and fish products. It is not expected that the composition of Australian imports or exports will alter significantly in the immediate future. Australia should continue to supply essential foodstuffs and raw materials, especially tin and sugar, with the

possibility of more coal and some iron ore. The growth of Australian exports will be largely dependent on the Malaysian economy regaining the high rates of growth achieved before the global recession, and will be assisted by any further increases in Malaysian exports to Australia.

3.86 Malaysia is second only to Singapore as a location for Australian investment in ASEAN. Australia was the second largest foreign investor in Malaysia in 1981 with over 110 manufacturing and non-manufacturing approved joint-ventures.⁸⁰ The flow of direct Australian investment, including retained earnings, to Malaysia reached \$25 million in 1982/83.⁸¹ In August 1984 it was reportedly announced in Kuala Lumpur that 'thirty-three Australian companies with a total investment potential of about A\$58 million have proposed to set up medium-scale manufacturing projects in Malaysia within the next two years'.⁸² Total Malaysian investment in Australia has been increasing rapidly. Malaysia was the fifth largest source of foreign investment in 1982/83, when 78% of Malaysian investment was intended for real estate. Proposed Malaysian expenditure on projects approved by the Foreign Investment Review Board in 1982/83 was \$103 million, and included a number of hotel projects.⁸³

(d) Philippines

3.87 Two way trade was valued at \$271.5m in 1982/83, the fourth highest bilateral flow between Australia and ASEAN. In 1982/83, Australia's exports to the Philippines were valued at \$187.5 million and consisted mainly of iron ore and concentrates, malt, dairy products, iron and steel, meat, and base metals. Imports from the Philippines were valued at \$84 million and consisted mainly of textiles, clothing and footwear, wood and railway sleepers, coconut products, miscellaneous manufactured articles, wood and furniture. The trade imbalance

in Australia's favour has been largely offset by the trade in invisibles (e.g. tourism, remittances from Filipinos working in Australia, and bilateral aid).

3.88 In view of current import restraint measures imposed by the Philippine Central Bank, to restrict the availability of foreign exchange to the import of only essential products, Australian exports in 1983/84 were down 24% in 1982/83. As most of Australia's exports to the Philippines comprise basic raw materials, notably foodstuffs, and iron and steel, Australia has more than a reasonable chance of maintaining its level of exports to the Philippines in the longer term; provided the Philippines can successfully restructure its foreign debts, gain import loans from its trading partners, and earn sufficient foreign exchange from its exports. In this context, the Australian Government supplied the Philippines \$50 million worth of export credit in early 1984, in response to a Filipino request and this has already proved useful for Australian exporters.⁸⁴

3.89 Philippine export performance in the Australian market has been disappointing, notwithstanding a market increase for imported clothing items. The Philippines has regularly protested about the level of Australian tariffs imposed on its wooden furniture and other items which it has considered should be regarded as covered by tariff concessions for 'handicrafts'. This disagreement continues. Future growth in Philippine exports is likely to be limited by increasing competition from other ASEAN countries and by Australia's self-sufficiency in most raw materials and foodstuffs.

3.90 Australian investment in the Philippines has remained steady in recent years, with most in the metal forming industry. Investment by Philippine interests in Australia has been small and directed mainly to the primary sector.

(e) Singapore

3.91 Two way trade continues to expand, totalling over \$1.4 billion in 1983/84, Australia's highest trade flow with an ASEAN country. Australia's exports to Singapore were valued at \$952 million in 1983/84, representing a 30% increase over 1982/83 and continuing a long and steady growth trend. Singapore ranks as Australia's sixth largest market and the largest in ASEAN. Main exports from Australia were refined petroleum products, raw cane sugar, photographic supplies, meat, fruit and vegetables, and industrial machinery. Australia's imports from Singapore totalled \$599.8 million in 1982/83, also continuing a long and steady rise, but slipped to \$470 million in 1983/84. Singapore ranks eighth as a source for Australia's imports and is our largest supplier within ASEAN. Imports include refined petroleum products, television and radio receivers, and electrical machinery and appliances.

3.92 While Australia is not a major market or supplier for Singapore, Singapore has developed into an important trading nation for Australia. Australian prospects will improve as average levels of affluence continue to grow, although the Singapore market is limited overall by its small population. Particularly promising is the fruit and vegetable market with slightly lesser prospects in the building and construction industry. Singapore is also a significant market for Australian manufactures. Opportunities for growth in imports from Singapore will develop with diversification in Singapore industry.

3.93 Singapore has long been the most popular ASEAN country for Australian investment.⁸⁵ Over 150 Australian based firms have an investment in Singapore, especially in manufacturing ventures including steel, glass and electrical products, and industrial equipment. Several Australian banks are involved in the banking and finance sector. Many Australian firms have developed sales and warehousing operations, using Singapore as a

base for the wider ASEAN market. Singapore is by far the largest ASEAN investor in Australia, supplying \$813 million in 1982/83. This made Singapore the fourth largest foreign investor in Australia. However, it is possible that many of these funds originate in other countries, notably Hong Kong.⁸⁶

(f) Thailand

3.94 Trade with Thailand had traditionally been smaller than with any other original ASEAN member country. However, the value of two way trade increased steadily (from \$105.1 million in 1977/78 to \$265.2 million in 1982/83) and jumped to \$340 million in 1983/84, when the two-way flow supplanted the Australia-Philippines trade as the fourth largest with ASEAN. Exports to Thailand were valued at \$218 million in 1983/84 while imports totalled \$89.4 million, up 37% from the previous year. Australia's exports to Thailand have traditionally been semi-processed materials for use in Thailand's industries, especially zinc, lead, iron and steel, chemicals and hides, as well as a range of machinery. Imports from Thailand comprise mainly tinned catfood, seafood products, textiles and clothing, and iron and steel pipe.

3.95 Two way trade can be expected to expand steadily, but remain relatively small. Thailand's exports to Australia have expanded significantly of late, albeit from a low base and are gradually gaining wider acceptance. Australia's exports in Thailand are likely to increase gradually, in line with Thailand's development and industrial needs. Earlier indications that Thailand might import substantial quantities of Australian steaming coal for power generation have not yet materialised, partly because of uncertainty about Thailand's off-shore natural gas resources.

3.96 The level of Australian direct investment in Thailand is low, an estimated \$50 million.⁸⁷ Around 20 Australian firms are involved in ventures in Thailand, mainly in manufacturing. However, interest by Australian industry in investing in Thailand increased in 1983 with Australia ranked number two in terms of approvals for foreign investment in 1983.⁸⁸ Thai investment in Australia has been negligible to date.

3. Trade in Services

(a) Existing trade flows

3.97 Differences between trade in merchandise and trade in services and the special prospects for exporting Australian services, recognised by numerous witnesses,⁸⁹ warrant separate treatment of services trade. Trade in 'invisibles' - traded services such as transport, travel, tourist spending, finance, insurance, business and technical consultancy - forms over a quarter of the world's trade and is growing fast.⁹⁰

3.98 In its submission, Trade detailed particular areas of Australian expertise currently being utilised in the ASEAN region, including:

- . integrated rural development including agricultural development, dams, irrigation, flood control, water supply and sewerage
- . mining and mineral development
- . hydro power generation and power reticulation
- . transportation facilities in the fields of roads, railways and seaports

- . urban and regional planning
- . energy conservation
- . education
- . management and financial planning.⁹¹

Professor Arndt commented that 'earnings from consultancy services in terms of foreign exchange are now quite significant ... in the order of \$30 million per annum from Indonesia alone'. Dr Hill mentioned that 'Australian companies are engaging in a fairly modest way in technology licensing..., and the payments in terms of royalties ... have grown quite quickly'.⁹²

3.99 Services are a large and growing factor in the Australian and ASEAN economies and in their mutual trade flows. In Australia and the five original ASEAN countries, the tertiary sectors account on average for over 40% of GDP, rising to over 60% in the case of Australia and Singapore.⁹³ Services accounted for over 35% of all exports from Singapore and the Philippines and for over 27% for Thailand, in 1982. Australia's figure was about 15% (reflecting its lesser export orientation), Malaysia's about 15% and Indonesia's only 7%.⁹⁴

3.100 It is significant that trade in services between Australia and ASEAN countries is growing faster and becoming 'more intense' than merchandise trade flows. Whereas Australian merchandise exports to ASEAN represented about 8.5% of total Australian merchandise exports in 1981/82, services exports to ASEAN comprised 10.1% of total services exports. Australian imports of ASEAN services were 13.4% of total services imports compared with 6.5% for merchandise imports.⁹⁵ Further, Australia's share of the ASEAN import market for services nearly doubled between 1973 and 1979, whereas Australia's share of the merchandise market actually declined⁹⁶.

3.101 Tucker⁹⁷ speculates on at least four reasons why there appears to be a more intense flow of services with ASEAN than for merchandise trade, at least when compared with Australian trade flows with the rest of the world: first, geographic proximity for intra-regional transportation and travel services; second, the numerous merchandise trade restrictions between Australia and ASEAN may tend to result in greater compensatory flows of expertise, technology and investment; third, greater complementarity (than for Australian manufactured exports) between Australia's technological and educational base and ASEAN's development needs; and fourth, intra-regional specialisation in services such as transportation and travel may result from the region's distance from other transport specialists such as Europe, US and Japan (and for whose travellers the region is a convenient staging point).

3.102 While these encouraging trends augur well for continuing growth in services flows between Australia and ASEAN, three qualifications should be noted. First, the balance of 'invisibles' (including transport, travel and insurance services), is still very much in ASEAN's favour: for example, Australia operates a net invisibles deficit with each and every ASEAN country, which totalled \$545 million in 1981/82.⁹⁸ This however, is not unexpected for a developed country like Australia which is primarily an exporter of bulk commodities, using shipping services not predominantly Australian-owned, and whose relatively affluent population travels and spends more overseas. A second qualification is that the optimistic services sector still represents only a small, albeit fast growing, sector of Australia's trade. Third, there remain significant barriers to services trade, especially protection of the financial sectors of ASEAN countries (although this is less in Singapore and is reducing in Australia following recent 'deregulatory' decisions in respect of foreign exchange dealings and foreign bank licences). These three qualifications for

services trade should not, however, be allowed to overshadow the generally bright prospects for expanding trade flows to the mutual benefit of Australia and the ASEAN region.

(b) Prospects for trade in Australian services

3.103 Numerous witnesses emphasised a comparative advantage for Australia in the supply to the ASEAN region of services, especially those based on 'human skills'.⁹⁹ Compared with ASEAN countries (with the possible exception of Singapore) Australia has a high proportion of persons highly skilled in scientific, technical, educational and business services: 'The sorts of services that typically come to mind are telecommunications, consultancy services, financial services, research and development services.'¹⁰⁰ Most of these areas were also mentioned by Dr Hill.¹⁰¹ Trade referred to Australia's 'proven expertise in ... telecommunications, medicine, education, as well as in agriculture, construction and engineering, which should be able to secure greater opportunities.'¹⁰² Education and medicine were prospects emphasised by both Foreign Affairs and Dr Edwards.¹⁰³ Increased involvement by Australian construction contractors in ASEAN's industrial development is another opportunity, for example in building roads, ports, and other infrastructure requirements.

3.104 Foreign Affairs also presented Australia's advantages and opportunities in the services export sector, but in a context wider than Australian export earnings:

'More important than a simple quantitative increase in Australia's trading and/or investment relationship with individual ASEAN members, however, is the opportunity to extend the range of economic linkages between ourselves and the ASEAN countries.

'In a number of areas Australia has material and technical capabilities which could play a vital role in the economic development process in the

ASEAN countries - to both their and our benefit. In addition to providing consultancy skills and equipment in areas such as agriculture, engineering and communications there appears to be scope for Australia to provide middle and upper level technologies and to establish itself as a major regional centre for education and health services, both in terms of provision of training and services in Australia and on the ground in ASEAN countries. There would also appear to be scope for Australia to become a major regional banking, finance and insurance centre (although this will depend on policy decisions of the Government)".¹⁰⁴

3.105 It is likely that ASEAN countries will continue to welcome transfers of technology and expertise in the services sector, as they seek to develop their economies e.g. with computer equipment and expertise. At the same time, ASEAN authorities are understandably concerned to encourage local services. Accordingly, numerous Australian firms have opened offices in the region in joint venture arrangements with local firms. According to Trade,

'this is recognised by all concerned as a mutually acceptable, significant and profitable means of meeting the requirements of ASEAN authorities and transferring technology ...The Department encourages consultants and contractors ... to seek work in South East Asia' [detailed later in this chapter].¹⁰⁵

3.106 The Committee also wishes to emphasise Australia's potential to provide tourist services for travellers in the ASEAN countries. Tourism services are valuable in terms of tourist expenditure and foreign currency receipts, expanded employment and their potential for greatly improving understanding of Australia in the ASEAN region. These potential benefits could be at least as valuable as similar benefits from ASEAN students, of whom there are presently fewer than 12 000 at any time, as levels of affluence and disposable income in the region rise. The Committee notes that the much larger number of Australian tourists relative to ASEAN tourists contributed

significantly to the net travel deficit of \$94 million in 1981/82: that year nearly 235 000 Australians were short-term visitors to ASEAN countries, over three times the number of ASEAN visitors in Australia.¹⁰⁶ Relative increases in ASEAN tourism should therefore assist in reducing Australia's significant invisibles deficit and in improving mutual understanding.

3.107 The Committee also notes the comment in the ASEAN Australia Business Council (ASEAN Section) submission, that tourism 'has a vast potential for all of us [ASEAN countries and Australia] and its development is surely in our interests to pursue'. The Council added that 'Australia's visa requirements are a source of irritation to those countries of ASEAN that permit visitors without [a prior] visa'.¹⁰⁷ The Committee considers that the potential for, and the financial and cultural advantages from, promoting tourism from the ASEAN countries should be thoroughly investigated by relevant public and private sector bodies as should the associated question of promotional airfares and package holidays.

3.108 The Committee notes with approval the Foreign Affairs submission that 'governmental initiative is highly desirable [in] the development and implementation of policies which facilitate Australia projecting itself as a regional services centre',¹⁰⁸ especially since several of the promising services areas are largely within the government sector, for example, Telecom. Areas of particular promise include medium and high technology (such as computer technology, telecommunications - including Australian satellites and distance education, and specialised medical services), business consultancy, accountancy and information services, energy technology and industrial processes, engineering and construction services and tourism. The Committee notes that the Department of Trade is expanding its services trade establishment, and is continuing to receive and disseminate advice from the Trade Commissioner (Projects and