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**KEYNOTE ADDRESS BY MR LEE KHOON CHOY, SENIOR MINISTER OF STATE
(PRIME MINISTER'S OFFICE, SINGAPORE) AT THE SEMINAR ON
"PROSPECTS OF TRADE BETWEEN ASEAN AND AUSTRALIA" IN CAIRNS,
AUSTRALIA, ON THURSDAY, 2 OCTOBER 1980**

It is indeed an honour to be invited to present a keynote address to this seminar on "Opportunities for trade between Northern Australia and ASEAN" from the ASEAN viewpoint. My presence here was a follow-up of last year's seminar held in Broome, Western Australia which decided to build a bridge of contact between Northern Australia and ASEAN. You could not have chosen a better site to have your first dialogue with your northern neighbours. The mild and pleasant tropical climate of this beautiful garden city of Cairns and the warm hospitality of the people here make me feel very much at home. The choice of Cairns may be motivated by your desire to remind delegates of the proximity between the Australian Northern territories and its ASEAN neighbours via the tropical air. Is it not true after all that Darwin which is only four hours jet time from Singapore is nearer to most of the ASEAN capitals than Canberra and other southern Australian cities?

We in Singapore and for that matter other ASEAN partners are glad to note Australia casting its eyes northwards. More and more Australians are beginning to take a keener interest in ASEAN. The increasing number of Australian tourists to our part of the world tells the story. Before we begin our deliberations on what Northern Australia can do for ASEAN and vice versa, it is necessary for us to be frank and open in spelling out our respective perceptions vis-a-vis one another. Perceptions can sometimes be misleading and sometimes even contrary to reality. Unless we are able to see

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things in the right perspective, we may find ourselves chasing our own shadows.

Judging from some of the speeches made during your last seminar in Broome, I gather the impression that Northern Australia's perception of the region to its north is that of a "huge marketplace" comprising some 430 million people covering Hong Kong, Taiwan, South Korea, Japan and those in the ASEAN bloc. Mention was even made of another 65 million in Vietnam, Laos and Kampuchea and an estimated one billion in China. It appears to me that the perception of Northern Australia was that it is geographically "so well placed to aid those vast populations and growing economies to our north to meet their demands for minerals, energy and food"; to quote the speech of the Honourable Marshall Perron, the Treasurer and Deputy Chief Minister of the Northern Territories. If this is your perception, then the motivation of Northern Australia casting its eyes northwards is motivated by economic factors. You want to sell your enormous supply of food, minerals and energy to the millions of people in the underdeveloped Asia. No one doubts the enormous potentials of Northern Australia and its capacity to sell. It is however necessary to ascertain whether this perception meets with the realities of the situation in ASEAN and the countries mentioned which have such large population. Is the region you have in mind really "a huge marketplace"? Have the people in the underdeveloped countries the purchasing power to buy the food, minerals and energy which Northern Australia has in abundance? When China recently decided to modernise, technologically advanced Japan immediately thought of the "huge marketplace" of a billion Chinese population. There was an euphoria and a surge of economic interest in the Chinese mainland. The Japanese soon discovered that there was a gap between their perceptions and realities. Several unforeseen factors, some political, others social and human, have made them changed their perceptions. It is therefore necessary to find out what are the factors -- political, economic, social and even human ones which may affect the objectivity of your perception. Allow me then to make a brief survey of the situation in ASEAN and the experience of our dialogue with Australia so that we will have a better perspective of the real

picture before we proceed to discuss matters of common interest.

ASEAN which was established since 1967 has a total population of some 230 million peoples of diverse races, languages, religions and cultures. Geography has given ASEAN the advantages as a region in terms of natural resources. ASEAN produce 98 per cent of the world's abaca fibre, 80 per cent of its rubber, more than 60 per cent of its copra and tin, over 50 per cent of its coconut, one third of its palm oil and one fifth of its pineapples. With Asia's rice-bowl in Thailand, new discoveries of oil in Indonesia, ASEAN has greater assurance of sufficient food, oil and energy resource in times of emergency when two agreements recently concluded are implemented. The first agreement concerns food supply recommended by the ASEAN Food Security Reserve which mitigates ASEAN members against rice shortage in national emergencies. The second was the establishment of an Emergency Petroleum Sharing Scheme by the ASEAN Council on Petroleum and Energy (ASCOPE) which pledged the sharing of oil supply in times of serious shortage. ASEAN has also at its disposal the world's third busiest port and other financial and technological facilities in Singapore which can serve the region. The potentialities which are at the disposal of the ASEAN Five are so immense that it would not be too difficult to create a future to match the aspirations of the peoples if they are fully made use of.

As I have mentioned earlier, potentials and one's wishes are two different matters. ASEAN has been in existence for 13 years and yet has just begun to tap the surface of its great potentialities. In intra-ASEAN trade and regional industrial co-operation for example, progress has been rather modest. Only recently has the trend of decline in intra-ASEAN trade reversed. From 1970 to 1975, the intra-ASEAN trade declined from 15.5 per cent to 12.5 per cent. Then in 1978, it crept up to 13.5 per cent. This improvement cannot as yet be attributed to the ASEAN Preferential Trading Arrangements. In industrial cooperation, ASEAN has made only slight progress. Three industrial projects have been approved by the Economic Ministers and are at various stages of implementation.

Externally however, /4.

Externally however, ASEAN as a regional grouping has made better impact. We have learned to protect our longer term common interests in our relations with third countries. In April this year, ASEAN and the European Community signed an Economic Cooperation Agreement in Kuala Lumpur. ASEAN's bilateral dialogues with Australia, New Zealand, the United States, Japan and Canada have brought greater convergence of ASEAN perspectives of our regional interests in the world economy. We have emphasised to these industrial countries the crucial need to improve access to their markets for ASEAN products if our political ties were to grow closer. We have spoken with one voice against protectionist policies.

Let me now touch on ASEAN's relation with Australia and generally our perception of our southern neighbour. Australia was the first country that ASEAN had dialogue with. It began in January 1974, when ASEAN and Australia held an informal meeting to discuss the establishment of a formal dialogue. The ASEAN Australia Forum was formalised in April 1974. So far ASEAN and Australia have held four Forum meetings, the fifth ASEAN Australia Forum was held in Jakarta in April 1980. At the beginning of the Forum in 1974, Australia agreed to provide A\$5 million to finance intra-ASEAN economic cooperation projects. In August 1977, at the ASEAN Heads of Government Summit in Kuala Lumpur, Australian Prime Minister, Mr Malcom Fraser pledged an additional A\$10 million. Both sides have formed the ASEAN Australia Consultative Meeting (AACM) since October 1978 to act as the consultative mechanism for the ASEAN Australia Forum. The AACM considers matters of mutual concern to ASEAN and Australia, especially trade matters.

ASEAN-Australia Economic Cooperation

Since the ASEAN-Australia Forum was formed, ASEAN has submitted two memoranda on trade liberalisation at the second and fourth Forums. They concern ASEAN's request for liberalisation of Australia's system of Tariff Preferences (ASTP), review of handicraft concessions, a trade promotion programme and proposals for industrial cooperation and investment

promotion. On ASEAN's request for the removal of Australia's 12½ per cent import duty surcharge, ASEAN was requested to provide specific evidence that its exports had been adversely affected. At the fourth Forum, Australia agreed to ASEAN's proposal to establish an early warning system for consultation and representation on trade restrictions.

So far the ASEAN-Australian relation has been good since the formation of the Forum. One of the thorny and delicate problems facing the dialogue is Australia's refusal to agree on the lowering of tariffs and the removal of quotas. Australia has however offered an additional A\$4.8 million as assistance over the next three years, to be spent mainly on trade and investment promotion projects. Australia has also provided funds for various projects such as research on food handling, protein food-waste, population, education, consumer protection and joint research project. As of now, the total Australian commitment for funding the projects of the ASEAN-Australia Forum amount to A\$34.5 million, of which A\$7.4 million has been disbursed since 1974.

What I have mentioned briefly were the organisational aspects and Australia's contributions towards smoothening the dialogue between ASEAN and Australia. Let us now have a glimpse at the nature of the bolts and nuts of Australia-ASEAN trade and how they have fared against one another.

An examination of the Australian products exported to ASEAN in 1977-78 shows that the most important items were food and agricultural products such as meat, dairy products, grains, fruits, vegetables and sugar. Edible food products accounted for more than one-third of total exports to ASEAN. Cereal grains and cereal preparations alone accounted for about 18 per cent of total exports to ASEAN. The second major broad category was minerals and related products such as petroleum, iron and steel, coal metals, etc which accounted for almost a third of total merchandise exported. In this category, iron and steel was the largest category accounting for 10.7 per cent of total exports. Two other categories of significance were machinery and transport equipment, which

accounted for /6.

accounted for 6.8 per cent and 6.3 per cent of exports respectively. The composition of exports reflected Australia's traditional specialisation in agriculture and mineral extractions. Exports to individual ASEAN countries exhibited a similar pattern except that Malaysia took a sizeable proportion of metallic ores and scrap metal (as raw material for its steel industries) while Singapore was the major market for petroleum and petroleum products (reflecting the needs of its refining industries) and transport equipment and machinery (reflecting its need for capital equipment). Available 1979 data shows that Indonesian imports from Australia were wheat (21 per cent), zinc (13.8 per cent) and iron and steel (13.7 per cent). For the Philippines, main imports from Australia were iron and steel (21.4 per cent), non-ferrous metals (15.7 per cent) and dairy products (10.8 per cent). Malaysia's imports were mainly food (47.9 per cent), inedible crude materials (25.6 per cent) and manufactured goods (14.6 per cent). Thailand's main imports from Australia were steel, aluminium, zinc and chemicals. For Singapore, its principal imports from Australia were wheat (13.6 per cent), meat (6.6 per cent), fruits (5.6 per cent) and honey and sugar (4.4 per cent).

Amongst the ASEAN countries, Singapore is Australia's most important trading partner, accounting for 32.3 per cent of the grouping's trade with Australia in 1979, followed by Malaysia and Indonesia, in that order. In terms of growth rates, trade with Indonesia, Malaysia and the Philippines grew faster.

The balance of trade has been in Australia's favour for the whole period, averaging US\$460 million annually. The trend for individual countries show Australia's favourable balance declining or stabilising except for Thailand.

I have just outlined the attempts and various efforts made by ASEAN members to bring about regional economic co-operation and the various steps taken by the ASEAN-Australian Forum for mutual benefit. This is an era of regional grouping, of narrower national protection and wider regional cooperation

as well as /7.

as well as mutual protection. Australia has already felt the impact of EEC protectionism vis-a-vis her food and meat supply. There is a growing tendency of economic groupings to exert monopolistic pricing. The Middle East situation has demonstrated that when a few nations control a strategic natural resource, they can readily exert monopolistic power. The world already has several examples of mineral cartel actions. Morocco, Tunisia, Senegal and Algeria have recently agreed to raise the price of phosphate rock. This led to the increase in prices of fertilizer and detergent. The countries supplying bauxite, the principal raw material used in aluminium production have met several times and have agreed on price setting strategies. The producers of mercury met in 1974 to agree on pricing principles. Other organisations such as the International Tin Council and the Intergovernmental Council of Copper Exporting Countries already exist. These and other formal and informal groupings of exports nations can be expected to set prices on the world market.

The aim of ASEAN and ASEAN-Australia dialogue is economic cooperation for mutual benefit. But statistics have shown that there has been more external trade with the outside world than intra-regional trade both within the ASEAN groupings and between ASEAN and Australia. ASEAN and Australia are in fact competing for the same market in the developed nations in some similar export produces. These are some of the basic contradictions facing most regional organisations when they begin to tackle their fundamental basis of economic cooperation. There is a common tendency for members of regional organisation to be inward looking and to treat regional cooperation as no more than a minor accessory to assist in the solution of their individual national problems. Whatever justification there might have been in the past for individual countries to find purely national solutions to national problems, there is a greater realisation all round of the necessity for them to treat regional cooperation as a prerequisite for their progress and even survival in the present day world situation. We are all today compelled by the economic realities to find solutions at more than just national levels. The remedies to our mutual problems rest on looking beyond for regional and international

levels of solutions. The recent economic crisis the world is facing has more than convinced everyone that interdependence has proved to be the only road to overcoming our economic problems and survival. Even the rich and highly industrialised countries, however unwilling they may appear, have come to the conclusion that not only are there no wholly national solutions to national problems especially in the field of economy, but that every attempt to enforce national solutions aggravate the problem.

The major problem facing ASEAN and for that matter Australia-ASEAN is whether we have the courage and will to pull our resources together to exploit the abundant natural resources in our region to eliminate wastage of manpower so that every worker skilled and unskilled could be more productively utilised to avoid unnecessary competition and to strengthen our bargaining power vis-a-vis the world's marketplace. This of course involves considerable restructuring of our individual economic structure which naturally has political, economic and social implications. Unless a concerted effort is made to map out an overall strategy for long term benefit of the common survival, each country would continue to look for short-term gains. For instance, the protectionistic policies of Australia are an obstacle to the promotion of bilateral trade between Australia and Singapore and similarly that of ASEAN. Australian tariffs are high and extensive. Since 1974, a growing number of products of interest to Singapore have been subjected to restrictive import measures and additional duties. These included clothing, textiles, footwear, plywood, airconditioners and batteries. A recent addition was restrictions on furniture imports. Australia raised the varying (two per cent to 20 per cent) developing countries tariff rates on most furniture imports to a uniform rate of 20 per cent. It also imposed tariff quotas on chairs and office furniture, items which are of export interest to ASEAN.

We are happy to note however that despite its protectionist stance, there were some visible attempts by the Australian government to review its protection policies.

The Crawford Study Group set up sometime ago to review Australia's structural adjustment, and the Industries Assistance Commission (IAC) had made recommendations to gradually dismantle Australia's protective barriers. As part of a tariff programme covering specific industries, the IAC has conducted a major study on the textile, clothing and footwear industries.

These recommendations which would help improve trade relations were however rejected by the Australian Government in August this year. Instead, the existence system of assistance for the clothing, textiles and footwear industries would be extended till end of 1981. As from January 1982, a new assistance programme will be implemented for a period of seven years. To appease Australia's trading partners, developing countries will be given a margin of preference of five to ten per cent under the new programme.

These are all what can be described as short term measures of appeasement and accommodation. They do not help solve the basic contradictions facing the long term relationship between ASEAN and Australia. We appreciate that no Australian government can ignore the country's problems arising from trade union demands, growing unemployment and general economic slowdown. As a matter of fact, most modern nation states, even those advanced in modern technology are pressurised to protect obsolescent industries in order to keep jobs for unproductive workers. They want the world to stand still for them. They are either oblivious to the changing world or have not the courage to respond to changing circumstances.

Australia is an important industrial country geographically close to ASEAN. Your present problems of domestic unemployment may limit your possibilities of opening your markets to ASEAN. But the time has come for Australia and ASEAN to sincerely examine and decide on our longer term relationships. Much will depend on our respective perceptions of our geo-political relationships. The questions we have to ask are: Has Australia a stake in a stable South East Asia in particular those parts of South East Asia which have

economic systems compatible and complementary to theirs? Will ASEAN be patient enough, to look ahead to what is possible in the intermediate future, and see what is possible in spite of the long-standing practice of high protectionism in Australia for their industries? What are the chances of ASEAN and Australia to develop a complementary economic relationship whereby those with lower wage cost can for the time being concentrate on more labour intensive industrial capacity and those with very high wage costs encouraged to take on higher technology industrial capacity. There are obvious advantages in being complementary. Otherwise the EEC would not have thrived, nor its relationships flourished with its associated countries, Greece, Portugal and Spain, besides its world wide ties with the African, Caribbean and Pacific countries of the Lome Convention.

It is against this scenario that we in Singapore are in the process of restructuring our economy so that we will be in a better position to meet the changed conditions in the 80s. In the early 1960s and early 1970s, we thought we were competing with Indonesia and Malaysia for industrialisation. Now we know that there are enough different kinds of industries for all the five in ASEAN. Let me give some examples of Singapore's restructuring efforts. After removing protective tariffs, three car assembly plants and one tyre factory have closed down. They released 1,500 workers for other jobs. It would mean training the released workers for higher skilled jobs. The plants which were forced to close down were the result of our lifting the walls of protectionism which had kept non-competitive industries alive. It was a wastage of manpower because they were used for the wrong jobs. We could not compete against tyres manufactured in Malaysia, a natural rubber producer, because the technology and value added were not high enough to overcome our comparative disadvantage. It is in Singapore's economic interests to import tyres and use our labour on other products where our comparative advantage is greater because of our higher education levels, higher skills and the higher value added products like precision machinery and later computer software. In other words, it is not economical to use our workers who are better educated and

better paid to process pineapples, coffee seeds, tapioca and sage. As a result of our economic restructuring the cleaning and processing of rubber has declined by half, and will decline further. Workers in sawn timber and sawmilling have gone down also by half. A total of 4,500 workers in these trades in the last few years have been retrenched. More such low value added jobs will be transferred out of Singapore.

This policy of economic restructuring has the effect of lessening tension between Singapore and her immediate ASEAN neighbours for we have demonstrated that we were after all not courting for the same bride. We need not compete with our neighbours to process agricultural or mineral products. Our economic strategy is to be complementary within ASEAN and to be competitive worldwide. Singapore's economic future and prospect lies in manufacturing to export in competition against all others in world markets. Another area for growth for Singapore is in "brain services" especially computer software. Singapore has to depend upon strategic location, infrastructure, accumulated expertise, and an open competitive environment for people and products. Market forces will make our natural advantage in strong economic and social infrastructure, complementing ASEAN's needs, e.g. SKF manufacturing spare parts and replacements for textiles machinery to service the textiles factories of the whole of South and Southeast Asia.

Life is a dynamic and continuous process of change. If we cannot move upwards, we shall fall behind. It has always been so in the development of society whether they were ancient tribes or modern nation states.

As we enter the 1980s, we shall see more dramatic changes. We have already witnessed the new pattern of political brute force in the interplay of international power politics in Kampuchea and Afghanistan. The new outbreak of war between the oil-rich Iraq and Iran and the speculation that half of OPEC countries may stop exporting oil by the end of the century will have far-reaching repercussions to our part of the world. If we remain complacent and continue to

procrastinate, we may find ourselves overtaken by events. Northern Australia's close proximity to its northern neighbours could turn out to be a disadvantage after all, if the balance of power in the Pacific tilts in favour of the Communist aggressors, not so much because they are strong but through our own default. Instead of a huge marketplace for Australian food, minerals and energy resources, a Communist-controlled South East Asia could become a never ending export of refugees, and this time from the immediate north, to swarm the beaches of Australia's northern territories.

By virtue of your proximity with South East Asia, you are already feeling the pinch of having to permanently resettle 37,000 refugees from Indochina. According to reports, you are spending close to A\$100 millions in three years on resettlement of Indochina refugees alone. Many times more than the financial aid of appeasement in your dialogue with ASEAN which I have mentioned.

If Australia and ASEAN share the same geo-political perspective, then our fate and destiny are interwoven. You have a stake in the stability of South East Asia particularly in your ASEAN partners which are non-Communist and have economic systems compatible and complementary to yours. None of us can run away from the realities of geography. If we do not give priority to long term considerations over short-term payoff in our overall economic planning and see things from a higher regional perspective, we will not be able to meet the demands and aspirations of the many millions of people in this region and this will lead to economic chaos, social unrest and political turmoil. Is it not better for Australia to help bring about a strong and economically more viable non-Communist Northern neighbours than having to spend many more millions to resettle more permanent refugees.

To conclude, I would like to stress that the opportunities of trade between Australia and ASEAN will depend to a large extent on our respective perception of our geo-political and economic relationship on how best we can together overcome some of the basic contradictions which still

exist in our trade relations. With courage, goodwill and careful planning on both sides and the spirit of give and take, I am sure we can solve our common problems.

I would like to take this opportunity to thank the organisers for the wonderful hospitality and for the excellent arrangements which have made possible this successful and memorable seminar.

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