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It is a pleasure to be here this morning to address this Economic Symposium, sponsored by the Australian Financial Review and the Nihon Keizai Shimbun in association sense of the possible. It is always a delight for me to address practical people as you no doubt are. I am sure that none of you would pay to come and listen unless you are going to get something from this symposium. In other words, you most likely regard attendance as an investment which should bring commensurate return sooner or later.

2. This meeting is timely because the growing importance of the Pacific region makes it imperative that ASEAN meet with the two giants which flank it to the north and the south, to ascertain how best to work together for mutual benefit. This meeting is also timely because there is a critical need now for ASEAN to seek out new frontiers, in partnership with its immediate neighbours, to promote sustained growth since the old established industrial nations can no longer be relied upon exclusively to provide the engine of growth in world trade. During the recessionary period of 1981-83, the ASEAN region has demonstrated its dynamism by expanding its combined average GNP at close to 5% in real terms annually. Most of the ASEAN economies are now on the way to resuming their pre-recession growth paths. What is important is to ensure that this growth process is sustained. The people in the ASEAN countries have come to expect this. ASEAN cannot allow world recession to adversely affect this growth. Even if there is the faintest possibility that economic interaction with countries like Japan and Australia will contribute towards ASEAN's economic health, this must be examined and worked at.

3. ASEAN is a major supplier of natural resources to the world. We produce and export the bulk of the world's supply of natural rubber, tin, tropical hardwoods, pepper, copra and palm oil. We are also a major producer and exporter of petroleum, gas, rice and other food products. In return, we buy manufactured products, especially from Japan. We are in a hurry to develop, to industrialise with the help of modern

technology and to raise the standard of living of our people. It is our aim to become an important grouping of developed nations as soon as possible. To achieve this goal the ASEAN countries have tried to complement each others effort. But this is not easy because the ASEAN countries have always been each others competitors. Consequently intra-ASEAN trade has not been significant. Despite vigorous promotion, intra-ASEAN trade now accounts for only about 15% of the total ASEAN trade with the world.

4. Until such time when the ASEAN countries learn to complement each other and increase the volume of intra-ASEAN trade, ASEAN will have to depend on the rest of the world for its market. For some time now the Asean countries have been trying to improve export performance by adding manufactured goods to the string of primary commodities that they export. But this has made no significant impact. As the pace of development increases, ASEAN imports of manufactured products keep on outstripping the value of the exports. In 1983 the combined trade deficit of the original "ASEAN 5" was U.S.\$11 billion. Even import restraint has not been able to reduce the adverse balance. To find an answer

5. ASEAN trade with Australia is small, amounting in 1982 US\$200 million. The bulk of ASEAN exports to Australia, totalling US\$1.5 to \$2 billion, is made up of primary commodities. About 60% of Australia's imports from ASEAN comprised petroleum, mainly from Indonesia and Singapore. Excluding the petroleum trade, ASEAN's trade deficit would reach US\$1.1 billion. However, ASEAN's manufactured exports accounted for only about 3% of Australia's total imports of manufactured goods. On the other hand, ASEAN imports mainly food, manufactured goods, machinery and equipment from Australia.

6. ASEAN trade with Japan is far more significant. In 1982, about 25% of the total trade of the original "ASEAN 5" was with Japan. As a group, ASEAN had a trade surplus of US\$800 million with Japan in 1982, due to the hefty surplus of Indonesia, mainly on account of petroleum exports. The other ASEAN members, namely Malaysia, the Philippines, Singapore and Thailand, all experienced deficits with Japan. The composition of this trade is a familiar story. We export mainly raw materials, largely unprocessed, and import a wide range of manufactured goods as well as plants and equipments. As in the case of Australia, Japan imports only a negligible amount of ASEAN manufactures.

7. It is quite clear that ASEAN's trading relationship with Japan and Australia requires review. Not only should the volume of trade between these close neighbours be increased but there should be greater balance in the trade. The trend that we see is that the balance would favour Australia even more when more coal and iron are bought for new plants in the ASEAN countries. As for Japan, with oil prices at present levels and manufactured goods not only

continuing to increase in price but also increasing in variety and sophistication, the balance may change in favour of Japan in the near future.

8. So what can be done. If Australia and Japan would like to sell more to the ASEAN countries, they will have to help the ASEAN countries earn more foreign exchange. Obviously they will have to buy more from ASEAN. Commodities have low added value. An increase in the import of ASEAN commodities would not enrich the ASEAN countries much. But if those commodities are processed into manufactured goods and exported, the ASEAN countries would make substantial earnings. Malaysia for example, has ambitions to become the biggest producer of rubber tyres in the world. With the advantage of lower raw material and labour cost, together with the economies of scale possible for a world supplier, it is not impossible for Malaysia to capture a substantial portion of the world market. If for a start Australia and Japan buys tyres from Malaysia, then not only will the balance of payment be corrected, but the two countries will not be just importing raw materials from Malaysia. In addition, earnings from higher value exports would enable Malaysia to buy more goods from Japan and Australia. There is no way by which Malaysia could become so industrialised that it will not need to import manufactured goods from Japan and Australia.

9. This is, of course, only an example. It may be just a pipe dream on the part of Malaysians like me. But dreams should not be dismissed simply because they seem far-fetched at the moment. Now if this example is multiplied by six, with different commodities of course, the volume of trade between the ASEAN countries and Australia and Japan could be greatly increased -- and, of course, would be better balanced.

10. Another approach would be to make the ASEAN countries a half-way house where intermediate processes are carried out. Australian iron ore is at the moment processed in a sintering plant in the Philippines and then shipped to Japan. Singapore refines crude oil from the Middle East for many countries in this region. This is something that can be repeated many times with numerous raw materials coming from Australia destined for Japan and other countries. If we consider how rich in energy and labour some of the ASEAN countries are, it follows that this half-way house intermediate processing can in fact be an approach that will benefit all the three partners. It seems to me that everyone will gain and no one will stand to lose.

11. A third approach is the relocation of certain industries which are no longer suitable for Japan and Australia. Obviously labour intensive industries should no longer be located in these two countries. They would do better in the ASEAN countries. Low technology industries where the value added is not high would form another group.

Energy intensive industries too come within the category of industries that should be relocated.

12. In all instances it is worthwhile to remember that ASEAN countries are among the most stable in the world and they all welcome foreign involvement in their economy. Its good business to do business with them.

13. If all these fanciful ideas are put into effect and the linkages between ASEAN, Australia and Japan become a reality, what would be the effect on the trading patterns of with other parts of the world will be affected. But the most likely scenario would be accelerated prosperity of the region which, if the present interest in South East Asia is any indication, would result in a rush on the part of developed countries to do business with this group. Indeed the new prosperity would spill over to the rest of the world. Despite Japan and Australia, there would still be a need to buy sophisticated products from the developed countries and also goods and other products from other developing countries. In other words, extensive economic cooperation between Japan, Australia and ASEAN, along the lines mentioned earlier, will benefit the economy of the world much the same way as the American economy affects the world. Indeed the worlds economy would not have to depend so much on that of America or of Europe. A new economic dynamo in the West Pacific would be able to take up the slack.

14. Having indulged in this flights of fancy, let me come down to earth. What in fact is the relation between ASEAN, Australia and Japan?. I have mentioned that ASEAN is largely a supplier of raw materials to Japan and Australia. Sentiments in both Japan and Australia favour protectionism. This is a strange sentiment considering that both countries are affected by American and European protectionism. One would think that being victims of protectionism, both would sympathise with the ASEAN countries' infantile steps towards exporting manufactured goods. But the fact is that protectionism is very strong especially in Japan.

15. If there is to be meaningful economic relations between Australia, Japan and ASEAN, then protectionism must be reduced or modified. Tariff and non-tariff barriers should be gradually dismantled. Instead there should be positive efforts made to ease the entry of manufactured goods from ASEAN into both countries. Where manufacturing is done by joint-venture companies involving either Japan or Australia with ASEAN, buy-back arrangements should be encouraged in order to provide ready markets which in turn will support large scale production.

16. Next comes the problem of shipping. ASEAN countries must be given a fair share in the carriage of goods between them and Japan and Australia. Earnings from the carriage of freight are very substantial. If we are going to avoid

excess shipping tonnage, some form of joint operations of shipping lines should be contrived at. Ships plying between ASEAN and Japan, and ASEAN and Australia should be pooled and manned by mixed crews. There will be problems of course, but the shipping industry should learn from airlines how to cooperate when competition is mutually damaging.

17. Air services should be liberalised. There should be more landing rights and more joint operations. The kind of rigid criteria for landing rights which is normally applied to airlines of developed countries should not be applied to the developing countries of ASEAN.

18. The world is getting smaller and more interdependent. There is no way by which we can isolate ourselves, whether we are developed or developing. Since we have to live and depend on each other, the best things to do is to accept the fact and make the best of it.

19. I have tried to highlight some areas where interdependence can be utilised for mutual development. I am sure that you, as practical businessmen, would be able to identify much more practical areas for the conduct of good economic relationship between the developing ASEAN countries and the developed nations of Japan and Australia.

20. Malaysia, and I believe all the other ASEAN countries are keen to develop mutually beneficial relations with Japan and Australia. We will be watching this Symposium with great interest and we hope that it will not be just an academic exercise but a true enquiry into practical matters which are implementable.

Thank you.