

15 May 2008

The Secretariat  
Review of Export Policies and Programs  
c/- Department of Foreign Affairs and Trade  
BARTON ACT 0221

### **Review of Export Policies and Programs**

The following reflections upon Australian Government export policies and programs are submitted to assist the Review of Export Policies and Programs announced by the Minister for Trade, the Hon Simon Crean, on 21 February 2008.

It is directed primarily to the following objectives of the Government noted by the Minister in his 21 February media release:

- The Government's determination to develop an integrated approach to trade policy and ensure it is part of the broader economic policy settings
- Ensuring our trade performance becomes a strong contributor to Australia's economic performance to sustain us beyond the resources boom
- The development of a strategic whole-of-government approach to advancing Australia's international economic and commercial interests.

As such it is directed primarily to the issues raised in section 5 (Trade development programs and services) of the topics for input and comment set out in the Key Issues Paper, but it is also relevant to section 3 (Trade negotiations and market access issues).

In preparing it I have taken account not only the issues raised by the Key Issues Paper, but also drawn on my experiences as:

- Deputy Secretary responsible for Trade Relations and Overseas Markets Divisions and the Australian Trade Commissioner Service, 1980-85
- Participant in the Review of the Trade Commissioner Service undertaken by Sir Eric McClintock in 1983 at the behest of the then Minister for Trade, the Hon. Lionel Bowen
- Member, National Export Marketing Strategy Panel 1984-85
- Direct involvement in preparing for Cabinet consideration in 1985 the proposal for the establishment of an Australian Trade Commission, and in the implementation of Cabinet's decision to proceed



- Special Trade Representative for North Asia, 1985-88
- Special Adviser/Deputy Secretary DFAT, 1988-91
- Executive Director, Business Council of Australia, 1992-96
- Secretary, Department of Primary Industries and Energy, 1996-98
- Secretary, Department of Defence, 1998-99.

I would of course be happy to elaborate any issues that you would care to take up with me.

Yours sincerely,

(Paul Barratt)

## **REFLECTIONS ON AUSTRADE AND THE TRADE DEVELOPMENT ROLE OF GOVERNMENT**

### **INTRODUCTION**

This paper has been prepared in response to the Government's invitation to interested parties to make submissions relating to the Panel which has been appointed by the Minister for Trade to conduct a comprehensive Review of Australia's Export Policies and Programs. It addresses in particular issues relating to the Australian Trade Commission (Austrade) and the role which Austrade might play in acting as a strategic instrument of Australian trade policy. Specifically, the paper sets out to address the following:

- A brief overview of the role of Government trade strategy and in this context, how Austrade might be positioned as a strategic instrument of government trade and economic development;
- How Austrade can make the biggest difference to Australian business, consistent with Austrade's role as a government service delivery agency, and the differing nature of the services that will best meet the needs of large businesses, on the one hand, and small and medium enterprises (SMEs) on the other;
- An overview of how Austrade is placed within the broader canvass of Australian trade policy and possible ways of adding value to the Government's policy agenda.

After presenting some relevant background to the establishment of Austrade, the paper addresses

- The policy context within which the Review is being conducted
- General strategic approaches to trade development and the delivery of trade development services
- The public interests that an official export promotion body can serve, and the means by which they can be served
- The important distinction to be drawn between "trade promotion" and the much more strategic function "trade development"
- The broad strategic choices available to the government concerning the mandate it could choose to give to Austrade
- Some examples of strategic approaches to trade development in which the author was personally involved, and the lessons that might be drawn from them
- In the light of the analysis and examples presented, further consideration of the ways in which Government export programs can address the needs of Australian business in the public interest
- A number of issues relevant to the structure and modus operandi of Austrade that will need to be taken into account by the Review, including the legislative framework, user charges, the disposition of resources, and issues relating to high level lateral recruitment.

## **POLICY CONTEXT: THE GOVERNMENT'S EXPORT OBJECTIVES**

The trade policy statement *A Strong Future for Australia's Exports* establishes a wide ranging agenda that the Review will need to address. Some of this is specific to the current export assistance programs delivered by Austrade, but the desire for a more strategic whole-of-government approach means that the Review will need to consider how Austrade's on-the-ground delivery of programs can be integrated into the Government's broader policy objectives and meshed with the activities of other agencies without creating ponderous coordination mechanisms that hamper the effectiveness of all the agencies.

The Overview section of the Statement notes a number of concerns and requirements that set the policy context for the Government's trade policy and strategy:

- The current resources boom has masked Australia's poor export performance
- Despite the strong global demand, Australia continues to register a large trade deficit
- The commodity boom alone will not secure Australia's future prosperity
- Strong and sustained export growth is essential for Australia's long term economic prosperity and for providing well paid, rewarding jobs
- The sustained export growth we need will occur only if Australia's trade promotion policies, programs and structures are renewed and reinvigorated
- Export policies and programs that position us to take maximum advantage of the ongoing resources boom and to grow exports from other sectors of the economy are required
- We need policies that are suited to the needs not only of our traditionally strong exporting sectors but also to small business and the growing opportunities for the services and financial services sectors
- The business community has recognised that there is a clear need to update and reinvigorate trade policies and programs.

The policy statement goes on to say:

- Labor will provide Australian businesses, especially small businesses and those in the services sector and in regional areas, with the help they need to take their products and services to the world and to meet the challenges and competition of the global market place.
- Labor sees real potential for increasing exports from the manufacturing sector, particularly in elaborately transformed manufactures, and from the interface between the manufacturing and services sectors in areas such as design and the provision of expertise.
- In trade negotiations a Rudd Labor Government will focus on achieving the best possible outcomes for the nation and for Australian business, particularly through multilateral structures. Labor believes there is an ongoing role for bilateral and regional agreements, especially where they are consistent with and can contribute to multilateral outcomes.

- Austrade and its programs will be reinvigorated, and complemented with a new business advisory body, to make it more adaptable and responsive to business concerns and to new export opportunities. In particular, a Rudd Labor Government would coordinate its industry, trade and regional development policies to provide business with better integrated government support.

My one comment about the above at this point is that there is not only an ongoing role for bilateral trade *agreements*; there is also a very important trade development role for bilateral trade *strategies* that target key industry sectors in key markets on the basis of currently available access and hence do not require the negotiation of a government-to-government agreement as a pre-condition for making progress.

## **BACKGROUND TO THE ESTABLISHMENT OF AUSTRADE**

The Australian Trade Commission (Austrade) commenced operations in 1986 as the successor to the Australian Trade Commissioner Service.

The Australian Trade Commissioner Service consisted of about 160 Trade Commissioners appointed under the Australian Trade Commissioners Act 1933 by the Governor-General on the recommendation of the Minister for Trade<sup>1</sup>. They were appointed for fixed terms (normally three years); appointments were normally renewed until the Trade Commissioner retired or resigned. Support staff were Public Service Act staff (on diplomatic postings) or locally engaged staff.

In-country services were provided to Australian business visitors free of charge, and the philosophy was that all businesses that sought assistance were entitled (within reason) to receive it to the extent that the post had the resources required to deliver the service. In a number of posts the Senior Trade Commissioner was Head of Mission, normally Consul-General (Bahrain, Osaka, Rio de Janeiro), sometimes Ambassador (Algiers) or Chargé d'Affaires (Tripoli).

The functions of individual posts lay somewhere on the spectrum between pure policy posts through trade development to pure trade promotion posts.

- Posts like Brussels, London, Paris, Buenos Aires and Rio de Janeiro were at the policy end of the spectrum. The Senior Trade Commissioner was typically a senior departmental officer on a single posting. The focus of the work was often liaison with the host government on trade access negotiations under way in multilateral fora, but the work in Rio de Janeiro and Buenos Aires involved bilateral liaison on commodities issues that could be seen as precursors to the establishment of the Cairns Group for the purposes of the Uruguay Round.

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<sup>1</sup> Note that the abolition of the Trade Commissioner Service and the replacement of its functions by Austrade took place prior to the 1987 merger of the Departments of Trade and of Foreign Affairs. In the early years following the merger Austrade was responsible to the Minister for Industry and Commerce, so it was for the first time in the history of the Trade Commissioner function in a different portfolio from the trade policy function. This may have contributed to the establishment of a culture in which “trade policy” and “trade promotion” were seen by most on both sides of the (rather spurious) boundary to be distinct functions. As the paper endeavours to make clear, integration of these functions is a key issue for the Review to address.

- Further along the spectrum were “trade development” posts, typically in difficult markets in which the work was a combination of identifying commercial opportunities, identifying companies that could be competitive in accessing those opportunities, assisting them in developing their strategy, and supporting them with the necessary government to government representations. Posts like Beijing, Jeddah/Riyadh, Algiers, Jakarta fall into this category. As the case notes below illustrate, at times these posts could succeed in creating for Australian firms commercial opportunities that would not be available to companies acting on their own.
- At the trade promotion end of the spectrum were posts typically in open developed country markets in which Australian companies could sell a wide range of goods provided they were competitive and were marketed adequately. The job was more in the nature of advising and facilitating Australian companies than breaking down access barriers or penetrating an opaque bureaucracy.

Because the individual Trade Commissioners were accountable to and under the direction of the Minister, who was in turn advised by the Department, the Trade Commissioner arm of the portfolio was effectively directed by the Department (an operating arm of the portfolio as a whole) and it was very easy to mount integrated campaigns such as the 1980s China Action Plan and Japan Market Strategy which had strong elements of trade policy, trade development and marketing<sup>2</sup>. A corollary of this was that there was no great need to consider where the boundaries of Departmental responsibilities lay vis-a-vis the Trade Commissioner Service. Nor was there a jurisdictional issue relating to whether individual overseas posts were “policy” or “marketing” posts<sup>3</sup>.

The philosophical underpinning of the decision to establish the Australian Trade Commission was a belief that:

- Users of the services provided by Trade Commission posts ought to be required to pay for the services they receive
- Services for which the users were not prepared to pay the cost of provision were of doubtful benefit to anyone and therefore probably ought to be wound down
- Accordingly, the provision of trade commissioner services should be placed on a more business-like footing in a statutory authority which could charge for its services and raise a high proportion of its budget from user charges
- This statutory authority ought as far as possible to look and to operate like a private business.

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<sup>2</sup> A detailed account of these programs and the lessons to be drawn from them was published by the author in the early 1990s – see Paul Barratt, “Winning Asian markets in the eighties: a model for the nineties”, *Australian Quarterly*, Summer 1992. The text of this paper is reproduced at Attachment A.

<sup>3</sup> The functional cost of disaggregating the two functions we explicitly recognised at the time that Austrade commenced formal operation. Austrade remained co-located with the Department of Trade in the Edmund Barton Building, and the staffs of the various area desks were deliberately located in close proximity to facilitate day-to-day consultation and collaboration. This close collaboration inevitably began to become more distant when the two bodies moved to different portfolios and Austrade moved to its own headquarters building.

## GENERAL APPROACHES

### Why have Austrade?

The thinking which underpinned the conversion of the Australian Trade Commissioner Service into Austrade was not very deep, to say the least. If Austrade could raise most or all of its fees from its clients, the question which immediately arises is why it is not operating in the private sector<sup>4</sup>. Questions of competitive neutrality also arise in relation to any Government operation that is some kind of trade consultancy, because its activities inevitably compete with private sector trade consultants.

A more appropriate way in which to consider the positioning of Austrade in the Australian public sector space is to consider it from a public policy and public interest perspective. Far from measuring Austrade's performance and relevance by the extent to which it can recover its costs through user charges (in effect a proxy for how much the client base values the services), Austrade should be measured on the basis of the extent to which the public benefits it brings are judged sufficient justification for its net cost to government. This is of course much more difficult to measure than gross (or net) revenue, but in relation to a government agency whose justification rests on public interest grounds it is the only relevant measure. It should not be difficult to establish clear and consistent principles on which to assess where Austrade or government as a whole has made a material contribution to achieving an outcome the benefits of which accrue outside government in the first instance.

The central question concerning Austrade is the extent to which it is to be a strategic instrument of public policy (the tenor of the terms of reference of the current Review), or a government service provider primarily directed to assisting SMEs. Put another way, is it to have a strategic function or is it intended simply to operate at the tactical level? To judge by the current Act, the answer at present is resoundingly the second (less ambitious) of these two possibilities. The overarching phrase in S.8 is "to facilitate and encourage trade". These are not quality goals in the sense of being sufficiently specific to enable clear visibility of whether they are being achieved. Nor are they challenging.

The trade policy presented by the Government during the recent election (see above) makes quite clear that the Government intends Austrade to play a strong role in the strategic realm.

In that regard it is important at this stage to establish a clear picture of what is meant by the term "strategy". Strategy is an overworked and much misused word, all too often confused with "tactics", both regarded as interchangeable synonyms for "a plan".

In this paper the term "tactics" refers to the application of professional skill, disciplines and procedures to maximising the chances of success in the circumstances of the day. Tactics are important: they can and should involve a high standard of innovation, responsiveness and professionalism.

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<sup>4</sup> Indeed in 1992 then Opposition spokesman Alexander Downer declared to the author that the Coalition would privatise Austrade when it returned to office.

The terms “strategy” and “strategic” are used to refer to plans and actions directed not simply to doing the best we can within the operating environment as it exists, but to influencing the operating environment in our favour, in order to achieve a substantial improvement in our chances of success. It is about changing the rules of the game, about shaping events, not just responding to them<sup>5</sup>.

The core question addressed in this paper is how Austrade can best address the strategic issues in Australian trade policy and programs.

The public interests that Austrade can serve include:

- Contribution to Australia’s trade performance (reduction of current account deficit) in ways such as the following; examples given are from the 1980s China Action Plan<sup>6</sup>:
  - Using the high level access available to senior government officials to discern new and emerging opportunities in difficult markets in a timely manner, position suitably capable businesses to capture the opportunities, and use the high level access to support the efforts of the relevant Australian businesses.
    - Shun Chang Cement Plant (BHP Engineering)
    - Effort to reopen Kwinana blast furnace (BHP-Chinese Ministry of Metallurgical Industry (MMI)-WA Govt)
    - CITIC investment in Portland Aluminium Smelter
    - Chinese investment in Mount Channar Iron Ore Mine
  - Organisation and management of high level missions which will obtain very high level access in the target market
    - Transport mission led by Sir Peter Abeles under the sponsorship of Prime Minister Hawke
  - Development of integrated industry plans with clear targets and assigned roles for government and industry participants
    - China Iron and Steel
    - Wool Initiative
    - Transport Initiative

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<sup>5</sup> The Hawke Government’s China Action Plan described in the article attached to this paper was deeply strategic in its nature and intent. It aimed to transform the environment for Australian business in China by establishing effective working relationships between political leaders and relevant senior officials; using these relationships to be ahead of the game as new programs or reforms created new opportunities; influencing patterns of investment in both directions; demonstrating that we took China’s economic reform program seriously; and obtaining privileged access for representatives of key Australian businesses. The early results were sufficiently encouraging that the Prime Minister’s Economic Adviser, Ross Garnaut, a key driver of the program, was appointed Australian Ambassador to China (1985-88) and the author of this paper was appointed Special Trade Representative for North Asia (1985-88), based in Canberra. Upon his return from his posting in Beijing Dr Garnaut was commissioned to undertake the review that was published as Garnaut, R. 1989, *Australia and the North-East Asian Ascendancy: Report to the Prime Minister and Minister for Foreign Affairs and Trade*, Australian Government Publishing Service, Canberra.

<sup>6</sup> See Attachment A.

- Working with international financial institutions and local authorities to create infrastructure solutions for which Australian firms would be highly competitive; assemble and manage the Australian bid consortium.
  - Shanghai Liquid Waste (consortium that became Heavy Engineering Manufacturers Association of Australia, HEMA)
- Assembling and project managing consortia to respond to foreign government requests for tender
  - Dong Du (Fujian Port) Stage II
- Assist in the injection of Australian industry into supply chains for highly globalised industries.
  - I believe there are important opportunities to do this with Defence primes for which Australia is an important market.
- Improving the performance of individual exporters
  - Market intelligence, especially in developing country markets
  - Advice to SMEs (eg on specifics of particular markets or opportunities)
  - Introduction to potential clients with a clear interest in the product
  - Mentoring high priority firms throughout their negotiations until the negotiations are successful or abandoned, e.g., from the 1980s Japan Market Strategy (non-traditional exports to Japan)
    - Budget car rental joint venture
    - Australian wine exports
    - Sheridan sheets (Pacific Dunlop)
  - Direct delivery of export development skills and services into regional centres in Australia
  - Export trade skills training
  - Advice to first-time exporters, or to exporters exporting to a particular market for the first time
- Contributing to Government trade policy agenda
  - Identification of trade impediments that have a significant impact on Australian exporters
  - Identification of emerging opportunities in difficult markets
  - Identifying opportunities for Government to support export and investment efforts of major significance
- Prioritisation of the access negotiations agenda, especially at the bilateral level: energy should only be expended on access negotiations that serve an identifiable commercial interest – access negotiations are not ends in themselves. There is no point in trying to kick open a door that no one is waiting to go through.

## **Trade development**

It will be evident from the above that there is a wide range of functions that is neither “trade access negotiations” in the sense of the Doha Round or a bilateral Free Trade Agreement (FTA), nor “trade promotion” in the sense of taking known goods and services and seeking simply to match the suppliers with buyers. Nor does much of it require the negotiation of a bilateral agreement, although these can help to expand the available opportunities.

Some of the most important opportunities lie in the realm of “trade development”, which might for example involve creating an interface between an entity with a problem (e.g. a national or provincial government agency) and an entity or group of entities that can develop a solution. Helping the foreign entity to scope the problem might well be central to creating the opportunity, particularly in the less advanced economies or regions.

The great strength of this approach is that it is market driven – we start with the customer and go looking for the Australian supplier(s) who can meet the need, rather than the more supply-driven approach of starting with an industry sector (within which the firms often see themselves as being in vigorous competition) and looking for markets.

## **The time-scales of international trade**

Over the years there has been much confused discussion and comment about the relative merits of multilateral and bilateral trade policy/strategy, much of which indicates a presumption that the two are in conflict and that there is a choice to be made between them.

In fact each of them has an important place and the nation’s trade diplomacy should be seen in terms of action on three different timescales:

- In true multilateral trade negotiations we are envisaging the world as we would like it to be, and setting out to achieve the closest approximation to it that we can. Inevitably, the timescales are very long. That is not a criticism, but it needs to be recognised that this is a form of investment in the future, not a way of achieving near-term rewards. Time required is years to decades.
- The intermediate time horizon (months to a small number of years) involves
  - The bilateral negotiation of trade access, directed not only to Free Trade Agreements but also for example to the many opportunities to negotiate modifications to or repeal of legacy protection schemes<sup>7</sup>.
  - The construction of market strategies such as the highly successful Hawke-era China Action Plan and Japan Market Strategy.

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<sup>7</sup> As economies evolve, a variety of tariff and non-tariff barriers can outlive their usefulness to the host nation, but they are often not repealed in the absence of specific reason to do so. Often they are traded away in the context of multilateral trade rounds, but the timescales of comprehensive multilateral trade negotiations are so long that new opportunities for change can arise during or between rounds. With a constructive working relationship with the relevant overseas ministries, specific changes can be negotiated quite simply provided there is a demonstrable commercial rationale for doing so. Typically any changes are made on a global basis so that all countries benefit from these “housekeeping” changes.

- The establishment of industry-specific export strategies.
- The shortest time horizon (weeks to months) accepts the world exactly as it is today and seeks to maximise our achievement on a commercial basis, supported by government wherever this can add value.

Item three above is the traditional “trade promotion” or “marketing” function and is to be distinguished from the “trade development” functions embodied in item two.

### **Potential ambit of operation**

Austrade could offer to meet the needs of any government in one of three ways:

- A strict focus on its traditional (current) role – facilitating and encouraging trade, and perhaps operating somewhat more strategically as a trade development agency, while essentially limiting its focus to what it can achieve with its own powers and resources.
- A strong contributor to an integrated Foreign Affairs and Trade portfolio approach to Australia’s commercial and economic relations with the world – bringing its knowledge and skills to the processes of setting the wider agenda, and producing, in consultation with Departments such as the Department of Agriculture, Forests and Fisheries and the Department of Infrastructure, Energy and Resources, coordinated DFAT/Austrade/AusAID action plans to be implemented with the involvement of all three agencies as required.
- Assist the portfolio as a whole to bring the necessary international perspective to setting the domestic agenda in areas such as education, skill formation, infrastructure investment, participation in international collaborative schemes such as the Human Genome Project, the Intelligent Manufacturing Project etc. In the age of globalisation the domestic economic agenda are not just a matter of doing things better than we did them last year – it is necessary to ensure that we are doing them better than our competitors<sup>8</sup>.

Austrade’s current core offering is the first of the above and it must always ensure that it can perform these basic functions well, but it is presumably a key objective of the current Review to consider how much more could be achieved.

### **BILATERAL TRADE STRATEGIES - CASE NOTES**

The following examples from past programs are offered to illustrate the types of strategic approaches that can have a transformative approach to Australia’s trade performance in specific markets. A fuller account can be found in the paper at Attachment A.

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<sup>8</sup> The Hawke-Garnaut thinking about the integration of key industry sectors in Australia and China was deeply connected to their thinking about liberalisation of the Australian economy and selling the case for difficult reforms to important domestic constituencies.

## **China Action Plan**

The China Action Plan was developed as a specific initiative to respond to a joint statement issued in early 1983 by Prime Minister Hawke and Premier Zhao Ziyang, to the effect that the two governments would work hard to enhance trade and investment in both directions. The key feature of the program was ensuring sufficient impact and follow-through by targeting a small number of provinces and a small number of industry sectors.

Commercial risk to Australian enterprises was greatly reduced by:

- Establishing working relationships with senior officials in the targeted provinces, and making regular visits
- Obtaining hard intelligence on the projects which had high priority in the provincial plans
- Consulting central authorities on the status of those plans, e.g. whether the project had or would soon receive the necessary allocation of hard currency
- Giving firms with the requisite capability direct introduction to the provincial officials responsible for the projects
- Providing advice on outstanding issues during the course of negotiations
- For major projects that warranted it, supporting the effort with Ministerial calls and invitations to Australia.

## **China Iron and Steel**

In 1984 China had a desperate shortage of finished steel products to meet the needs of rapid economic growth. There was also a problem with the quality of much of its production. In consequence China was spending one third of its hard currency earnings on importing finished products from Japan.

Australia too had a problem. Our steel production was competitive for the production of intermediate products but uncompetitive at the finishing stage because our runs were too short.

During his visit to China in 1984 Prime Minister Hawke suggested to Premier Zhao Ziyang that we attempt a closer integration of our iron and steel industries. China should import slabs and billets from Australia, and concentrate its future investment on the finishing stages.

This led to the establishment of the Iron and Steel Joint Study Group which provided a Deputy Secretary to Vice Minister interface, under Government to Government backing, and gave the Australian industry privileged access to Ministry of Metallurgical Industry thinking and decision makers.

## **China Iron and Steel Mission**

One example of this privileged access was the fact that later in 1984, at a time when a street map of Beijing carried a national security classification, we were able to organise an iron and steel technical mission, led by a Department of Trade official and including industry participants from every phase of steel-making, the National President of the Federated Iron

Workers' Association of Australia and technical experts from CSIRO and the University of Queensland, to visit China and inspect a range of the most important plants for the purpose of assessing quality problems and identifying production bottlenecks. Needless to say this generated valuable commercial intelligence for the participating companies<sup>9</sup>.

Among the commercial benefits to come out of this was the fact that BHP and CRA were able to obtain a much better idea of where their iron ore was being used, and provide technical advice to their customers, which helped to support their respective positions in the market.

### **Shun Chang Cement Plant**

In 1984 BHP Engineering (recently established as a separate operating entity) was bidding for its first overseas project, construction of a cement plant at Shun Chang, Fujian Province. The Department saw a strategic advantage in assisting BHP Engineering to win this project and provided assistance on a variety of levels:

- Against strong resistance from other agencies, the Department of Trade obtained Government approval to provide a concessional finance package under the then Development Import Finance Facility (DIFF) scheme.
- Briefed Prime Minister Hawke to raise the project at his meeting with Premier Zhao Ziyang in Beijing in February 1984, and present it as a good opportunity to take a further important step in the bilateral economic relationship<sup>10</sup>.
- Directed Hong-Kong based Trade Commissioner (South China) to give the project priority, make regular visits to the provincial capital (Fuzhou), and make himself known to the key provincial officials.
- Ensured that Fuzhou was on the itinerary for Deputy Prime Minister Lionel Bowen when he visited China in mid-year and that the Shun Chang project was central to the discussion agenda.
- Briefed the Deputy PM to invite the relevant Deputy Governor to Australia for the signing ceremony – before the provincial government had announced the successful tenderer.

### **Shanghai Liquid Waste**

The China team negotiated with the World Bank to break out of an overall investment program for waste water treatment for Shanghai a major sewerage outfall, which became a free standing project within the overall program. We then assembled and managed a

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<sup>9</sup> See Australian Department of Trade, *China's Iron and Steel Industry: Report of the Australian Government Iron and Steel Industry Technical Assessment Mission to China*, Australian Government Publishing Service, Canberra 1985.

<sup>10</sup> A senior Chinese official left the meeting temporarily to ring Fuzhou and enquire about the state of play with this project. This no doubt had an impact on the provincial officials who had only recently been delegated from the central government the authority to decide about investment projects of this magnitude.

consortium that could perform the construction on a turnkey basis, and negotiated through Cabinet a concessional finance package to support the Australian bid<sup>11</sup>.

### **Inbound Chinese Investment**

The China team played a critical role in the successful completion of negotiations for Chinese investment in Mount Channar Iron Ore Mine and Portland Aluminium Smelter.

### **Japan Market Strategy**

This program was designed to promote non-traditional exports to Japan in the light of rising consumer affluence and westernisation of consumer tastes, and pressure on the price of Japanese finished products in the light of the mid-1980s currency realignments, which created new opportunities for Australia to supply competitive intermediate goods which would assist with the competitiveness of the final product.

Among the successes of the program were:

- Bob Ansett (Budget Car Rentals) persuaded to stay the course on his car rental negotiations until satisfactory commercial terms were achieved (Bob acknowledged that he had been ready to walk away)
- Several wine exporters successfully counselled not to enter the market at a low price – to safeguard their brand and position their wine at the quality end of the market where it belonged.
- Similarly with Pacific Dunlop (Sheridan sheets).
- Strong push on automotive parts.

### **BILATERAL TRADE STRATEGIES – CONCLUSIONS**

The conclusion to be drawn from the programs outlined above remains as I expressed it in 1992: that a systematic, research-based strategic approach which identifies where market opportunities are will produce a vigorous response from Australian companies across the board. Accordingly, targeted bilateral trade strategies involving close co-operation between the Government and the private sector are well worthwhile, subject to a number of conditions:

- They must flow from in-depth research - and the devil is in the detail;

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<sup>11</sup> Unfortunately it took so much time to gain Cabinet approval that much of Australia's advantage in taking the initiative to set up the project was lost. This was because of a requirement to demonstrate "ambient completion" in order to gain approval to offer a concessional finance package in support of a major project bid; some Australian Government agencies took a very hard line on what "demonstrated" ambient competition. The time taken meant that the Australian finance package when finally presented was in a very crowded field – about nine bids were lodged ahead of the Australian bid by other countries. The relevant Chinese Ministries were very confused by this turn of events with the upshot that the project did not proceed on the turnkey basis that was originally envisaged, but one beneficial effect of this unsatisfactory experience was that Cabinet reconsidered and changed the rules about what was required to demonstrate "ambient competition" in order to gain approval to offer a concessional finance package.

- The strategy is only a piece of paper unless someone implements it - it must therefore be a program of action with clear targets, methodology, priorities and a budget;
- There must be one Government strategy and a disciplined approach within an established time frame - there can be a Government strategy or a "do your own thing" policy for individual agencies, but not both;
- "Opportunities" must be followed right through or until it is clear that they cannot be secured. Half completed tasks represent no gain: tasks on which action is complete can be succeeded by new tasks;
- This means that there must be a narrow agenda which realistically relates the tasks to be done to the available resources;
- We must not expect anything worthwhile to come quickly or easily;
- We must remember that in all our major markets we are in vigorous competition with others whose performance we must outclass - and that they will be continuously improving their performance;
- Government and business must approach the task as an exercise in communication, both between our public and private sectors and between Australia and the target market;
- As a community we must also approach the exercise as a learning experience. We must be prepared to take risks and accept mistakes, and to learn from the study of past approaches; and
- It is important to make constant efforts to review and overhaul the instruments at Australia's disposal to ensure that they can effectively support our trade efforts.

For co-ordinated Government strategies, it is of the essence that some one person be responsible. This is the essence of good management and accountability; a strategy is not an aggregation of "bits". The separate elements of the strategy must all pass through one mind, and we cannot hope to mount a major sustained effort on the basis of part-time involvement: if we want to achieve major corporate goals, some identifiable individual must be responsible.

The human resource element is vital. The development and management of an effective bilateral strategy does not require huge staff resources; the combination of a team atmosphere, real responsibility, and clear measures of success are powerful motivators and act to ensure high levels of commitment and productivity. The team must, however, be in a position to manage the process: it must have the necessary high level backing to enable it to be listened to and to ensure continuity of adequate resources and of program focus, it must be able to respond quickly to new situations as they arise, and it must be able to make decisions.

Success in strategy development by government agencies will depend upon:

- Their capacity to relate social, economic and political trends in target markets to Australia's economic goals;

- Their understanding of the governmental and bureaucratic structure in the target market, and of the implications of any reform thereof;
- A dynamic approach which cross-references trade objectives to improving competitiveness in Australian industry as a result of domestic economic reform or changes in individual workplaces;
- A willingness to take responsible risks - nothing will be achieved if the predominant objective is to avoid mistakes or embarrassment; and
- A willingness to match resources to the task in hand or vice versa, and to be rigorous in the setting of priorities.

Above all, it is important for Government to remember that it is in the business for the public benefits which accrue to Australia beyond the private benefits which accrue to the firm, and to ensure, therefore, that it works hand in glove with its private sector clients.

### **ASSISTING AUSTRALIAN BUSINESS**

Aside from the value of bilateral trade strategies there is the issue of the assistance that a government export agency can provide to individual businesses.

It is often assumed that major businesses can make their own way in the world without much in the way of assistance from government. This is substantially true: in the overwhelming majority of cases Australia's major resources companies, banks and other large businesses know what their commercial opportunities are and are well resourced. Typically they have an array of export opportunities and they have their own well established procedures for prioritising their opportunities and allocating resources to capturing them.

Nevertheless, it is too comfortable a position to proceed on the assumption that these companies can be left to their own devices and that there is no potential for the efforts of government agencies to add value. There are in fact many ways in which government agencies can assist large businesses, particularly in difficult markets characterised by less public information, less transparent decision making, and much higher levels of government intervention and control in relation to individual decisions as well as the economy as a whole:

- Government can afford to maintain a larger network of overseas representatives on the ground than would be warranted for even the largest business. Briefed on the objectives of a company in relation to any particular market, capable and astute government representatives living in-country ought to be able to acquire and communicate valuable intelligence, much of it from open sources, some of it from privileged access.
- Similarly, appropriately briefed officers living in market should be able to provide timely notice of possible changes that might have an impact (positive or negative) on the company's business.
- Official representatives can normally obtain access to government decision makers at a much higher level than is possible for company representatives. Face to face contact at senior level can speed up the decision cycle, help to compensate for communication problems which inevitably arise, and help to avert unwelcome surprises.

- The export finance and export insurance services provided by EFIC are important to all levels of business.

For small and medium enterprises, government can provide a range of services:

- Advice on overseas trading in general (particularly for first time exporters)
- Advice on entry strategies for particular markets, and on doing business in those markets
- Establishing contact with appropriate importers and/or agents
- Mentoring company representatives through complex negotiations.

The most valuable services that government can provide to SMEs can be gathered under the heading “reducing commercial risk”. Entering export markets for the first time involves commercial risk in the sense both that it is very expensive and may come to nothing, and in the sense that the world is a very large and complex place and an SME with a very good product might run out of financial resources before finding the customer for whom that is the right product at the right price at the right time.

Government agencies can operate on both aspects of that risk equation. They can reduce the amount of money that the company has at stake by means of export development grants, and they can reduce the marketing risks by providing sound, timely commercial intelligence and sound, timely advice about how to enter the market and how to identify the most likely customer(s).

In order for the financial risk side of the equation to work effectively companies must have certainty about the quantum of the export grant and the timeliness of its payment – otherwise it become yet another financial risk and the government does not achieve the full effect of its outlay because in the absence of certainty the company must discount it.

One measure which the Review might care to consider is the introduction of a loans scheme under which the Government mitigates the risks associated with international marketing but has part or all of its contribution refunded if the particular campaign it has underwritten reaches certain pre-agreed success thresholds. If the aim of the program is to reduce risk, it is hard to argue against making some level of restitution if the efforts are crowned with success.

## **STRUCTURAL AND ORGANISATIONAL EFFECTIVENESS ISSUES**

### **Legislative Framework**

The scheme of the Australian Trade Commission Act as it currently stands is unusual to say the least:

- The Commission as such has no functions other than to assist the CEO in the performance of his or her functions.
- All of the substantive functions are legislated as personal functions of the CEO; the normal thing would be to have the functions reside in the Commission and charge the CEO with running the Commission in such a manner as to carry out the functions efficiently and effectively.

This seems to be a product of the former Government's legislative changes pursuant to the Uhrig Report which were implemented in effect by putting the CEO in place of the Board. This is not to suggest that it would be desirable to re-establish an Austrade Board; rather it is to raise the question of whether the functions should be personal attributes of the CEO rather than the statutory public entity.

In the context of the current Review this aspect of the legislation might be tidied up. The functions themselves should also be addressed to ensure that they reflect the expectations of the Government in light of the Review outcomes.

### **User Charges**

User charges for public services is a difficult question at the best of times. For Austrade it is a strategic issue because of the potential of poorly designed charging regimes to lead to behaviour that is poorly aligned with the purposes of the organisation.

If the Australian Government and public were truly indifferent to whether any given exporter succeeds or fails in its export endeavour, then all the benefits of Austrade's support are private benefits, and it would be appropriate for the exporter to pay all of the costs of the service plus a normal profit margin. But in that case, why have a government agency at all? Why not leave it to private service providers? And why have it administering export grant schemes?

If it is accepted that the principal rationale for Austrade is a public interest one, then it must be accepted that obtaining revenue for the services provided is a second order issue. The principal justification for user charging would appear to be the rationing effect of restraining clients from the almost inevitable excessive use of free services. Accordingly there is an appropriate role for a level of "cost recovery" in the provision of a range of services, but it is important to ensure that the charging regime is directed to limited excessive demands upon Austrade resources and that the revenue stream does not become an end in itself.

One of the key problems with Austrade standing in the market to provide what are in effect trade consultancy-type services is that this is at odds with the public interest functions of the organisation. If Austrade thinks of itself as a trade consultancy, the fee stream will inevitably come to be regarded as a measure of the worth of a Trade Commissioner, with severely distortionary effects. There should be nothing in place which leads to a conflict between a Trade Commissioner's private interest in meeting his KPIs and his public duty to advance Australia's trade interests.

An example of this type of conflict arises when a Trade Commissioner, in the performance of his/her duties, obtains or compiles valuable commercial intelligence. A company with limited experience or understanding of that particular market will almost inevitably under-value the (as yet undisclosed) intelligence, and probably treat it with scepticism – yet from a public interest point of view we want to persuade them to act on it. If the company is not prepared to purchase this information, what do we want the Trade Commissioner to do – withhold it in the hope of selling it to someone else?

Similarly, in pursuit of Austrade's trade development role, we should be wanting Trade Commissioners to pursue what they assess to be important opportunities, but ones for which no firm has as yet agreed to pay. These activities must be speculative to a degree in their early

stages: the trick is to identify the decision point at which industry partners should be brought on board or the effort discontinued.

The potentially distorting effect of charging regimes can also be seen in relation to Commonwealth and State Ministerial visits. The tactical approach is to see this as an opportunity to raise a fee by offering to arrange the Minister's program. The strategic approach is to identify ways in which the visit of that particular Minister could be used to advance Australia's trade and commercial strategy in the market, to arrange the highest level appointments that can be achieved, accompany the Minister to the appointments (to the extent that the Minister is willing to accept this), assist in identifying achievable outcomes, assist in scripting the meeting so that the chances of achieving the outcomes are maximised, and ensure that any necessary follow-up takes place.

One issue that companies normally do not have a problem with is the recovery of the direct costs of providing services to them, e.g. recovery of travel and accommodation costs of a Trade Commissioner who accompanies them on an out of town visit.

### **Disposition of Resources**

Very early in its life Austrade moved most of its senior resources overseas, presumably in the belief that the people concerned ought to be out in the market place. I think there was also a sensitivity about Austrade looking like an overseas trade organisation that has all of its most senior people in Australia. Certainly there is a lot to be said for having very senior people present in the market-place, but there is a serious question about whether the strategic levels of management should be located away from headquarters.

Effectively, an additional layer of management has been introduced. A strong case could be made that every head of post should be senior enough to run his/her individual post (or country market with a set of in-country posts) and be accountable only to Austrade Headquarters for his/her performance.

What is the virtue of having all China posts answerable to someone in Tokyo, or all Japan posts answerable to someone in Shanghai?

There is no easy answer to this question but it is an issue that needs to be addressed by the Review.

There is also a question to be addressed concerning the location of Austrade's headquarters. If Austrade is a trade facilitation service provider there is some argument for it to be located close to its customers, although it is hard to see how locating the headquarters in Sydney helps exporters in Melbourne, Brisbane, Adelaide, Perth etc.

If Austrade's highest function is to be its strategic contribution to Australia's trade policy and performance then the appropriate location for the headquarters function would be alongside the government agencies with which it is intended to collaborate, and of course alongside government itself.

Again this is a question to be addressed in the course of the Review.

## **Recruitment risks**

An organisation with widely dispersed small posts faces risks in relation to senior level recruitment that are stronger than those to be found in a large central headquarters. The principal risk is that lateral recruits to overseas head of post positions have a very high level of local authority, but there is little opportunity to test their alignment to the organisation's culture and values until after they take up duty.

This suggests to me that a risk management approach needs to be taken to merit-based senior staff selection. Explicit recognition of the organisational risks (effectiveness, reputational, international relations) of an appointment that turns out to be inappropriate should be explicitly factored into the selection process.

## **Learning and training**

One of the striking things about the Australian Defence Force is the investment it makes in learning from every operation in which it is engaged, from leading a military coalition in East Timor to the rescue of a lone sailor in the Southern Ocean. Post-deployment reports document what went right and what went wrong, why they went as they did, and what lessons can be learned for the future. These reports become part of a data-base that is available not only to people planning future deployments but also to people attending staff courses or writing staff papers.

Also striking are the extent to which the ADF invests in its future leadership, and the extent to which the current and immediate past leaders are directly involved in the training of the next generation. There are some things that cannot be outsourced, and a practitioner's view of the craft is one of them.

Australian trade-related agencies would be well advised to emulate these practices. In the complex world of international trade diplomacy and strategy, in which we are dealing with a great variety of cultures, levels of economic development, approaches to government, and ways of seeing the world, there should be no tolerance for the notion that the changing population of officers in the various agencies can proceed on important government business without assimilating what has been learned in the past. The visible costs of documenting lessons learned and training future leaders are far less than the hidden costs of avoidable mistakes.

This means, inter alia, that the senior leaders must see themselves as being the core members of the training workforce.

## **SUMMARY AND CONCLUSIONS**

The key conclusions from the foregoing analysis are:

- Austrade needs to be seen as a public interest organisation and it will achieve the highest impact for Australia if it concentrates its efforts at the strategic rather than the tactical level.

- Accordingly, the Review will need to develop a new conceptual framework within which Austrade contributes to a whole-of-government view of the trade policy agenda, and contributes to the domestic agenda that impact on competitiveness.
- The distinction between “trade development” and “trade promotion” needs to be explicitly recognised.
- The relevant Government agencies need to be structured for a strong capability in “trade development” as well as “trade promotion”, and resourced accordingly.
- Bilateral trade strategies involving close collaboration with Australian business should be a key feature of the policy and program mix.
- Trade-related agencies should systematically capture the lessons learned from their more important campaigns and incorporate these into their training courses and briefing programs.

Paul Barratt  
15 May 2008

## ATTACHMENT A

### **Winning Asian Markets in the Eighties: A Model for the Nineties**

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Special Trade Representative for North Asia)

The development of Australia's trade and economic relationships with countries of the Asian region is very much on the national agenda at the present time. Fading hopes for the Uruguay Round have also led to a heightened interest in the role which government can play in enhancing trade outcomes in specific markets through the implementation of bilateral trade strategies, and a belated recognition that effective bilateral trade strategies would be essential to capturing the benefits of any Uruguay Round settlement, however successful the outcome. In developing policies and programs for the future, some useful lessons can be learned from approaches which have been implemented successfully in the recent past.

This paper describes policy development and programs for which the author was personally responsible<sup>1</sup>, either as Deputy Secretary, Department of Trade or as Special Trade Representative for North Asia during the period 1983-87 in the case of China and Japan, and in the case of India during 1989-91 as Special Adviser or as Deputy Secretary, Department of Foreign Affairs and Trade. Its purpose is to illustrate by specific example how government can enhance Australia's export performance through effectively managed bilateral trade programs.

In brief, the aim of these strategies was to take Australian companies into "new" or enhanced areas of trade by improving their access to information about relevant commercial opportunities, reducing their front-end costs and hence their commercial risk, and building confidence to enter new markets through assurances of continuing access to market intelligence, advice and support.

They involved a recognition that the rationale for government support for the export community is that wider national gains flow from the success of individual firms.

The key lesson for the 1990s which emerges from the experience of these programs is that a systematic, research-based approach to bilateral trade strategies, involving close collaboration between government agencies and the Australian private sector, can make a significant difference to trade outcomes. Indeed, bilateral trade strategies involving a partnership between government and business are an essential tool not only for dealing with "difficult" markets, but for maximising Australia's market share in relatively open markets. The fundamental requirements for success are identification of genuine commercial opportunities on the basis of careful analysis, a

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<sup>1</sup> The author's responsibilities as part of the Department's senior executive included guiding policy development, program implementation and program management, and leadership of key negotiations in the countries concerned.

rigorously targeted and professional effort which makes efficient use of the available resources, and judicious use of high level political support.

### **The Need for Change: Australia's Trade Performance in the 1970s**

From the time of its establishment in the late 1970s the former Department of Trade and Resources took a strongly research-based approach to trade policy development and export promotion. In the process it began to shift the focus of Australian thinking about our trade linkages from the OECD economies to the countries in our immediate region. Its first Survey of Major Western Pacific Economies was published in June 1981, and the Surveys were published annually for the next few years.

In addition, the Department produced a number of Internal Research Memoranda, two of which, IRM 1<sup>2</sup> and IRM 4<sup>3</sup>, opened the way to the development of successful strategies for trade development in the Asian region in the 1980s.

The first of these reports, which was brought out quickly on the basis of the best available data, represented a good first analysis of the problem. The second was undertaken after final data for the decade became available, and went more deeply into the factors underlying our performance.

The key findings of IRM 4 regarding Australia's export performance were:

- Australia's overall importance as a world exporter declined over the 1970s<sup>4</sup>;
- Australian exports grew more slowly than the exports of other major trading countries in both value and volume terms<sup>5</sup>;
- the penetration of Australian exports declined in most markets, including Japan, China, Hong Kong and Taiwan;
- the command over world resources afforded by Australian exports did not increase significantly in real terms, whereas the great majority of other major trading countries substantially increased their command over world resources<sup>6</sup>;

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<sup>2</sup> Internal Research Memorandum No. 1, *Australian Export Performance in the 1970s*, Department of Trade and Resources, December 1980.

<sup>3</sup> Internal Research Memorandum No. 4, "*Australian Export Performance in the 1970s: Some Further Analysis*", Department of Trade and Resources, August 1982.

<sup>4</sup> Australia's share of world exports by value (\$US) declined from 1.68% in 1970 to 1.18% in 1980 (it had been nearly 3% in 1948).

<sup>5</sup> The value of Australian exports grew at an average of 16.5% per annum, compared with an annual growth rate of 20.8% for the world as a whole. The volume of Australian exports grew on average by 3.6% per annum, compared with 5.6% for the world as a whole.

<sup>6</sup> Australia's international purchasing power (IPP) increased by 7.4%, compared with a world average of 70.8%.

- the export sector did not make a significant or sustained contribution to Australian economic growth, whereas in most other countries the export sector was an "engine of growth"<sup>7</sup>;
- The reasons for this poor performance were that Australia's export performance was locked into the slowest growing areas of world demand. These are characterised by agricultural and coal mining protectionism in the industrialised countries, by a variety of Government interventions in minerals production and sale in the Third World, and by a long term secular decline in the growth of demand for, and the real price of, products in both categories.

The obvious solution to the problem was to seek to diversify our economic base, in line with the recommendations of the then recent Report of the Study Group on Structural Adjustment ("Crawford Report")<sup>8</sup>.

At the same time it would clearly be essential to protect and enhance the traditional export base, which would continue to be the mainstay of Australian exports. Continuing success in this sector would be essential to provide the macroeconomic stability which would be necessary to minimise pain during any structural adjustment process. The second Report on Export Performance (IRM 4) also drew attention to the need for reductions of protection (at home as well as overseas), microeconomic reform to reduce shipping costs, and an enhanced research and development effort.<sup>9</sup>

The traditional Governmental response to flagging export performance had been to mount export awareness campaigns along the lines of the early 1980s "Export Now" program, but I believe that campaigns of this type are of limited usefulness and at best short-term in their effect.

I preferred therefore to test a new approach: to identify specific markets in which Australia could lift its performance by targeting specific opportunities which were emerging in those countries; to work to the self-imposed discipline of measurable indicators of our performance in those markets; and to develop a "team" approach which permitted the devolution of responsibility for individual program elements to quite junior staff<sup>10</sup>.

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<sup>7</sup> Of the 24 countries for which comparable data are available between 1970 and 1980, all but five increased their export/GDP ratio faster than Australia.

<sup>8</sup> *Report of the Study Group on Structural Adjustment*, Australian Government Publishing Service, Canberra, 1979.

<sup>9</sup> In due course the Department of Trade was to campaign successfully for the establishment of a Cabinet sub-committee which would dedicate itself to micro-reform issues affecting Australia's trade competitiveness, known at first as the Trade Competitiveness Committee and subsequently as the Structural Adjustment Committee. The first notable success from this initiative was the reform of air-freight arrangements out of Australia.

<sup>10</sup> There was a high degree of devolution of operational responsibility; staff in Australia and overseas posts were encouraged to bring forward ideas which fitted into the framework of the over all approach, and for which they were given a high degree of ownership in the implementation phase. One of the many advantages of giving staff clear areas of personal responsibility whether it be for a geographical region and/or a group of products - was that it provided a basis for investing in the professional

The most obvious target was Japan, the destination for about 27 per cent of Australia's exports. It was and remains the vital market for our traditional commodity exports, and also offered good potential for exports of manufactured and processed goods.

China was chosen as a second target. Its circumstances were very different, and accordingly it offered scope to test different approaches. As a result of economic reforms in the late 1970s it was beginning to post very impressive economic growth, and it seemed to represent one of the great growth opportunities for Australian trade.

Thus the Japan Market Strategy and the China Action Plan which were implemented in the mid-1980s were the result of "zeroing in" on some key export destinations, as a contribution to turning around Australia's trade performance.

I recognised from the outset that to be successful any bilateral trade strategy would require a willingness to take manageable risks. There could be no gain if avoiding embarrassment or criticism were to loom large as an objective. The approach which was adopted involved three basic departures from traditional practice:

- a willingness to be selective regarding the degree of support to be provided to individual firms;
- a willingness to become far more involved in individual commercial negotiations than had traditionally been the case; and
- a willingness to put the Department's own "face" on the line in encouraging companies to pursue particular trade opportunities.

The approach to both markets therefore embraced not only identifying market opportunities, but being prepared to work hand in hand with individual firms to capture them. If a firm that wished to make a serious commitment to pursue the opportunity could not be identified, then it was not an opportunity in the relevant sense.

Experience also showed that it was possible to create specific commercial opportunities, but again the above criteria applied.

The first step in each market was to identify the relevant economic circumstances and economic trends in the countries concerned, and to relate these to Australia's situation and needs.

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development of staff and enhancing the contribution which they could make. Systematic efforts were made to give staff "in-market" experience, such as organising and accompanying missions and relieving in overseas posts while posted staff were on leave (normal practice was to "carry" the temporary vacancy).

These efforts extended to the often under-utilised staff in State capitals, who were a vital interface with the client base. I felt that it was quite unreasonable to expect firms to take advice from people who had not themselves had experience in the market; it was important for all of the team to be "hands on". The direct involvement in the market of all operational staff contributed substantially to the development of a "team" culture.

Objectives and priorities had then to be matched to the available resources. Any setting of objectives which does not do this has a large element of fiction about it.

### **The China Action Plan**

In China, the two principal elements of our trade strategy were providing specific "hands-on" help to people seeking to make deals within the framework of existing Chinese policy, and seeking through sustained high level contact to influence policy in directions favourable to Australia.

The new circumstances which made the Chinese market attractive included the stated aim of opening the Chinese economy to the outside world, the reform of agriculture, and the devolution of decision-making authority to the provinces, to major municipalities and to individual enterprises.

The principal economic realities with which we had to contend in China were the very low level of per capita income, highly centralised decision-making processes, changes in the decision making process, poorly developed infrastructure, shortage of energy, shortage of capital, shortage of foreign exchange and the system of rationing foreign exchange. The country's economic priorities as identified by the Chinese Government were fundamental, and it would clearly be a waste of time to pursue any apparent commercial opportunity which did not have approval in the relevant State or Provincial plan or for which foreign exchange had not been allocated.

This led naturally to a heavy emphasis on areas identified as priorities under the relevant five-year plan - areas such as the development of transport and communications infrastructure and the energy sector.

The visit to Australia by Premier Zhao Ziyang in April 1983 provided the specific trigger to launching a targeted bilateral market development strategy - the China Action Plan.

A centrally planned economy is not an easy place to do business at the best of times. In a country as vast as China, both geographically and in terms of population, and at a time when the economy and its administration are undergoing fundamental change, the problems are so much the greater.

I therefore considered it essential that the China Action Plan provide the following major strategic elements:

- a government-to-government "umbrella" to support, facilitate and enhance bilateral trade and investment;
- a high degree of involvement by Australian Government officials in the marketing of Australian goods and services and in establishing investment interests;
- supporting the "atmosphere" of the trading relationship by working to ensure that there was an acceptable balance of trading opportunity between the two countries; and

- recognising the constructive role which investment can play in the development of bilateral trade.

In order to match the task to the available resources the China Action Plan team's attention was concentrated on a small number of "targeted" Provinces: Shanghai, Fujian, Guangdong, Jiangsu and Qinghai. The basis for selection was a belief that the areas in question had a significant development priority in China, and, consistent with that, had foreign exchange at their disposal. Three of the targeted areas had established links with Australian States.

The field was further narrowed by concentrating on areas in which Australia had particular skills which were in demand in China: transport, communications, bulk commodities handling, minerals, energy, agriculture and animal husbandry.

The defined objective was to double Australian exports to China in three to five years - three years being the high point of our ambition and five still representing success.

China was not easy to "sell" as a market in those days, and it was important not to send small and medium (or indeed any) Australian companies on expensive wild goose chases. Accordingly, our approach was to make frequent visits, by both Canberra-based and China-based officers, to the capitals of the targeted provinces, to investigate possible commercial opportunities and to establish a relationship of trust and confidence with the provincial officials.

The purpose of these visits was to establish which projects on the various provincial "wish lists" (a) were credible targets for Australia in terms of our industrial capacities; and (b) were already far enough advanced through the approval system in China to allow reasonable confidence that they would receive final approval and the necessary foreign exchange allocation.

Having identified possible projects, we started looking for firms which might be interested in competing for them. In the course of this search we took care to satisfy ourselves about the seriousness of the firm's interest. We were careful to avoid complicating our relationship with Provincial Governments by introducing to them firms which we considered unlikely to stay the distance in the difficult business of concluding business arrangements in China.

Having identified a suitable firm with a prima facie interest, we would ascertain the threshold information about the project which it would need in order to make a decision to enter into commercial discussions with the Chinese. We would then seek this information on our next visit to the provincial capital. This process might be repeated two or three times.

Once we and the firm were satisfied that the opportunity warranted follow-up at the commercial level, we handed over to the firm, although for new entrants to the market we did give a lot of advice about the shaping of proposals and the conduct of negotiations. This approach proved very effective, and for the companies concerned it reduced the front-end costs in terms of both money and executive time which are usually associated with breaking into export markets. It thus reduced commercial risk and acted as a real incentive to firms to look at the China market seriously. It enabled a number of smaller firms which might otherwise have had difficulty in doing so to

break into the market. The result was that our client population grew rapidly, although it was gratifying that many firms moved quickly to the stage that they were pursuing new contracts in the market with minimal reliance upon official support.

### **Sector-Specific Initiatives**

By the time Prime Minister Hawke visited Beijing in February 1984, the Australian Government felt well placed to take the next step in developing the relationship. The China Action Plan acquired a significant new dimension with the establishment of what came to be known as the Iron and Steel Initiative.

In seeking to develop co-operation in this area we had a base upon which to build. An official Australian Iron and Steel Mission, organised by the Department of Trade and Resources and led by John Innes of CRA, had visited China in June-July 1978, and a Coal Mission had visited China in about 1979.

We also had the goodwill generated by the China Action Plan, with its emphasis on developing trade in both directions, to provide a very positive atmosphere in which the Prime Minister could launch the concept of closer co-operation in the iron and steel sector.

In his discussions with Premier Zhao the Prime Minister said that we should seek to take advantage of the potential for complementarity in our two economies. Australia wanted to be an increased supplier of raw materials - iron ore, and hopefully coal - to the Chinese steel industry.

Further, he suggested that it could fit in well with Chinese development plans for some steel-making inputs to be imported in the form of pig iron, slabs and billets. If we moved in this direction, China could reduce its imports of finished steel, could avoid transport bottlenecks, and could reduce transport costs, especially to ports which cannot take bulk carriers. Most importantly, it could save scarce capital by concentrating its investment in the downstream stages of processing.

Zhao's positive and detailed response is noteworthy. He said that Australia and China could set a good example of co-operation between countries with different social systems and different levels of economic development. In the iron and steel industry we could explore "multi-faceted co-operation" involving the development of trade in both directions, the promotion of technical co-operation, and the development of investment in both directions. He agreed to the establishment of a joint working group (the Joint Study Group on Iron and Steel) which could look, inter alia, at upgrading of the steel industry in China's coastal areas, and at the possibility of Chinese investment in an iron ore mine in Australia.

Thus from the very outset the Australian proponents of the concept were looking not only at improving our trade prospects in this area, but also at opportunities to add value to our exports, and to influence patterns of investment.

This pointed immediately to two major projects: the re-opening of the idle blast furnace at Kwinana, and obtaining Chinese agreement to invest in the development of a new iron ore mine in Australia, a concept which had been discussed during Premier Zhao's visit to Australia in April 1983.

As in other aspects of the China Action Plan, our approach to the Iron and Steel Initiative (which in turn provided the model for the sectors which were taken on subsequently) was that, whilst it was a government-to-government program, we would get Australian companies directly involved at the commercial level as quickly and in as major a way as possible. Our task would be to facilitate their entry into new areas of business, and to provide a continuing government-to government umbrella for their efforts.

Consequently I suggested to the Chinese Ministry of Metallurgical Industry that Australia send to China a Technical Assessment Mission under departmental leadership but consisting entirely of experts from various facets of the steel industry, from iron ore mining through to finishing. The aim would be to conduct an on-the-spot investigation of the Chinese steel industry and make proposals for commercial collaboration in improving its performance in terms of quantity, quality or variety of products. Agreement was readily given.

The Mission which visited China in July-August 1984 consisted mainly of senior executives from BHP, CRA, CSR and Cliffs Western Australian Mining. The trade union movement was represented by the National President of the Federated Ironworkers' Association of Australia. The University of Queensland and CSIRO filled out the Mission's technological expertise.

The Mission visited eight major steel works in China and a number of mines and various associated facilities. It obtained a first hand appreciation of the management, organisation and operation of production facilities which were responsible for about half of China's iron and steel output.

It concluded that there was extensive potential for the development of economic and technical co-operation between the Australian and Chinese industries, and its report laid the foundation for future co-operation at the commercial level.

The Mission visited China a second time to present and discuss its report, a process which I regarded as important in order to have a real exchange of views with the Chinese in the light of the Mission's findings, and which I had made a condition of the exercise from the outset.

This period saw a dramatic growth in iron and steel-related exports to China. In calendar 1985, the first full year of the Iron and Steel Initiative, iron and steel related exports to China stood at \$336 million, more than double the 1984 figure of \$157.4 million, and about treble the 1983 figure of \$113.4 million. When General Secretary Hu Yaobang visited Whyalla in 1985, the school children were lined up at the airport with an Australian flag in one hand and a Chinese flag in the other, and for very good reason. China was buying about 40 per cent of the steel plant's production.

In parallel with this, negotiations were proceeding on an agreement for the re-opening of Kwinana, and on the Mount Channar Iron Ore Project - to this day one of China's largest overseas investments.

It is a matter of history that the Channar negotiations were successful, the agreement being signed and foreign investment approval given in 1987. The joint venture mine is now in production, and supplying iron ore to the Chinese steel industry.

What is less well understood is how close the Kwinana negotiations came to being successful also. Indeed, at the start of the process the Kwinana project appeared the more likely to be able to be brought to a successful conclusion.

The BHP team under Alan Castleman worked very hard on the project, as did the Chinese officials concerned in the Ministry of Metallurgical Industry. There was close co-operation between the BHP negotiators and both the Federal and Western Australian Government. This was exemplified by a round of negotiations in Beijing in October 1984 in which, as well as the usual commercial-level negotiations, there were meetings with the Vice-Minister of Metallurgical Industry in which Alan Castleman of BHP, the Western Australian Minister for Resource Development and I participated together. In the event, however, the project was defeated by weakening international economic conditions which lowered the price of internationally traded pig iron to the point that the project could not justify the start-up costs, which were inevitably increasing with the passage of time.

Relations between Australia and China in the steel sector grew in other ways. Some early training programs in Australia for Chinese steel industry personnel were followed by programs of seminars and training courses delivered by Australian experts in China. The Chinese Ministry attached such importance to these programs that in 1986 we proposed a major aid project to establish a management training facility attached to a Chinese university. This facility - the Iron and Steel Industry Training Centre at Wuhan Iron and Steel University - has been in operation since 1990. At this institution specialised Australian teaching staff offer advanced training in enterprise management, computer applications and specialised technical areas to a core group of 1,880 middle and upper management personnel.

From its beginnings in 1984 the iron and steel relationship grew so rapidly that by the time General Secretary Hu Yaobang visited Australia a year later, the Australian Government was in a position to launch further steps in the development of the economic relationship: the Joint Working Group on Wool and an Australian Transport Mission to China. Hu Yaobang accepted these proposals readily and proposed the establishment of a JWG on Non-Ferrous Metals - a sure sign that the Chinese Government fully embraced the concept of sector-specific collaboration<sup>11</sup>.

### **Projects and the DIFF**

In China as in many other developing country markets success in bidding for major construction projects is dependent upon the project bid - usually a bid by a private sector consortium - being supported by an official export finance package at concessional interest rates. Because of internationally agreed restrictions upon the minimum interest rates which may be offered by official export credit agencies, the desired concessionality is usually achieved by offering what is known as "mixed

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<sup>11</sup> The value placed upon Australian management training was reflected also in the collaboration which has been established in the non-ferrous metals sector. Another major Australian aid project was the establishment near Beijing of a Non-Ferrous Metals Industry Management Training Centre, which offers senior executive and business management courses to staff of the China National Non-Ferrous Metals Corporation (CNNC), supplemented by fellowships to participate in Australian management education programs and scholarships for postgraduate diploma study in Australia.

credit": in fact a grant covering a part of the project and a loan for the balance at the minimum permissible interest rate.

At the outset of the China Action Plan Australia's "mixed credit" facility, the Development Import Finance Facility (DIFF) was a relatively new instrument and it proved extremely cumbersome to utilise in practice. Nevertheless, a combination of astute and determined negotiation by BHP Engineering and vigorous Australian Government campaigning at Central Government and Provincial level did succeed in getting one major mixed credit-supported project off the ground during 1984. This was the contract to construct the Shunchang Cement Plant in Fujian Province.

Several other efforts were made during 1985 and 1986, the most important of these being the Shanghai Liquid Waste Project and the Dong Du Stage II port development at Xiamen. The stories of these two projects are basically variations on the one theme, and I deal here with the Shanghai Liquid Waste project only.

The Shanghai Liquid Waste project arose from a \$5 million co-financing project under which Australia engaged consultants to investigate the urban problems of the Shanghai municipality, with a view to developing projects which could be financed by the World Bank. This included a project for the management of the municipality's liquid wastes - sewerage and urban run-off water - with an estimated foreign exchange cost of about \$US160 million.

We were advised that, of the World Bank money to which China would have access over the relevant time period, the central authorities were prepared to allocate only \$US100 million to the Shanghai Municipality.

We saw this as an opportunity to create a substantial project for Australian industry, provided we could secure Australian Government approval to make a concessional finance offer for the foreign exchange shortfall. This seemed at the time to be a reasonable assumption. China had such large scale access to international concessional finance that it hardly seemed likely to be a problem to demonstrate "ambient competition" (see below).

We therefore canvassed interest amongst Australian firms and actively encouraged the establishment of a consortium, the Heavy Engineering Projects Consortium of Australia (HEPCA), to bid for the project. We also secured the support and involvement of the Melbourne and Metropolitan Board of Works (MMBW).

In parallel with this, we proposed to the Chinese central authorities, to Shanghai Municipality and to the World Bank that we "break out" and finance bilaterally a substantial component of the project, namely the supply, installation and commissioning of the mechanical, electrical and instrumentation equipment for the Tong Xing Pumping Station and sewerage treatment plant. We received generally encouraging noises all round.

The Project Consortium first visited Shanghai in July 1985 for preliminary discussions on possible involvement in the implementation of the project.

Further discussions were held in October 1985, as a result of which a letter of intent was signed by the Shanghai Government. That letter covered the broad scope of work for Australia, and indicated the need for competitive finance.

In the months that followed we put a massive effort into the pursuit of this project. Australia's interest and potential role were thoroughly discussed with all of the relevant authorities, and every available opportunity, at both Ministerial and official level, was taken to remind them of our interest.

It was not until April 1986, however, that we were able to obtain approval to make our formal offer of concessional finance for the project, a highly competitive one which I delivered to the Ministry of Foreign Economic Relations and Trade in person during a visit to China that month. I also briefed senior officials in key Chinese bodies such as the State Planning Commission and the State Economic Commission to ensure that they were aware of and favourably disposed to our offer and our proposed role in the project. In particular, I wanted to be sure that these organisations were aware that Australia's proposal to fund part of the project bilaterally had been developed in full consultation with the World Bank and that acceptance of our offer would not complicate China's relations with the Bank.<sup>12</sup>

On the face of it Australia did everything right with this project. We developed a proposal which grew out of an Australian aid-funded study in an area of high priority to the Chinese. We saw to the establishment of a single Australian commercial vehicle, composed of firms of the highest standing in their respective fields, and supported by a State Government authority which had responsibility for and long experience with similar investments in one of Australia's largest cities. We made a proposal which seemed to respond to the needs of the local and central authorities and the World Bank in getting the overall project under way on schedule without it commanding the lion's share of China's available funding. We gave the proposal massive Government, including Ministerial-level, support and made clear that it was one of our highest priorities in China. We brought the Mayor of Shanghai<sup>13</sup> to Australia as an official guest and we supported the project with a highly competitive finance package.

Nevertheless we missed out. In terms of the efforts employed to create and secure this project, it was a costly failure, and it is important to ask why. There were numerous contributing factors, but one which was identified as fundamentally important, not only by me but by World Bank officials, was our inability under the then existing procedures for the Australian concessional finance facility to put a finance package on the table at an early stage of the negotiations; our domestic approval procedures required us to prove that there was "ambient competition" from other export credit agencies at a given level of concessionality before we could make a matching offer.

This had meant that the Australian consortium had to negotiate with the Chinese for the best part of a year without being able to be specific about financial terms. The Chinese

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<sup>12</sup>This type of joint financing arrangement involving the bank and a donor government is a well-established procedure, but we could not assume that this was well understood in China at that time.

<sup>13</sup> Mr Jiang Zemin, now General Secretary of the Communist Party of China.

had therefore to keep their options open, paving the way for others to come in with counter offers and for substantial other mischief which went on behind the scenes<sup>14</sup>. By about January 1986, when we were still struggling to obtain approval to put our offer on the table, we were advised by World Bank officials that there were now nine soft credit packages on the table for the project which Australia had done so much to develop.

We were well aware of being hobbled by the absurd stringency of the concessional finance arrangements of that time, and by early 1986 it had become a major priority to make the facility an effective instrument in support of our efforts to secure major overseas construction projects. What we salvaged from our efforts on the Shanghai Liquid Waste Project was the acceptance of the concept of "spoiled markets" by the Federal Government. From that time it has not been necessary to prove "ambient competition" in markets such as China, India or Indonesia. Thus progress can be made if we are prepared to apply the lessons of experience to policy development - but it was a costly way to "learn" what was already known.

One of the characteristics of Australia's relations with China from 1972 onwards was the investment of the personal credibility of successive Australian Prime Ministers.

I think that one of the central questions in the public mind regarding Australia-China relations in the 1980s is whether Bob Hawke over-invested in this relationship. Was our former Prime Minister deluding himself about the nature of the relationship, and were the results unspectacular as some now claim?

For my part, I have no doubts about the appropriateness of the Government's approach and its outcomes. I challenge the view that the Australian Government went overboard in its relations with China, that nothing worthwhile came out of it, and that Bob Hawke deserved the welter of criticism which was levelled at him after the appalling tragedy of 4 June 1989. The Australian Government's approach to China in the mid-1980s was neither as naive nor as ill-conceived as some would now like to suggest, and the returns were real in both political and economic terms.

The structure of decision making in China is highly centralised and not altogether democratic or transparent. It is axiomatic, therefore, that anyone who wants to influence events in China, be they political or economic, has to get close to the Chinese leadership. Whitlam, Fraser and Hawke all realised this, and they all invested personal time, effort and face in the relationship.

Thus high level contact was not peculiarly a feature of the Hawke Prime Ministership. Vice-Premier Li Xiannian had visited Australia in 1980, and the 1983 visit of Zhao Ziyang, which took place within a few weeks of the Hawke Government assuming office, was in response to an invitation by Malcolm Fraser. With the thaw in Australia-China relations in the early 1990s, we have already seen this year a further

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<sup>14</sup> We were told, for example, by a very senior source in Shanghai, that the French had been at great pains to convince the Shanghai authorities that Australia did not have the technical skills to carry out the work. In the highly competitive "projects" market this type of behaviour is commonplace, and is one of the many reasons why delay can be costly.

senior-level visit by Vice Premier Zhu Rongzhi. Prime Minister Keating has announced a willingness to visit China.

Whatever critics may like to say now, it is a fact - and one which I observed at first hand on many occasions in both Australia and China - that Bob Hawke had a good working relationship with the Chinese leadership of the time; how else to explain the annual discussions at senior leadership level? The Chinese leadership has never been noted for its globe-trotting, yet we saw here in the 1980s Premier Zhao Ziyang in 1983, General Secretary of the Chinese Communist Party Hu Yaobang in 1985, Vice Premier Wan Li in 1986, State Councillor Gu Mu in 1987, Chairman Lu Dong of the then State Planning Commission also in 1987, and Premier Li Peng in 1988.

Beneath this apex there was an extraordinary procession of Chinese delegations to Australia led by Provincial Governors and Vice-Governors (including the present General Secretary, Jiang Zemin, who visited Australia as Mayor of Shanghai), and enterprise managers working on placements within various Australian businesses. Commonwealth and State leaders and senior Australian business figures reciprocated these visits.

Also, the interest in developing contact with China amongst Australian politicians was entirely in accordance with the sentiments of the Australian public at large; in the mid-1980s Australia was China's third largest source of tourists, behind Japan and the United States.

Regarding the political dimensions of the relationship, we certainly had our differences, principally Cambodia, the Korean Peninsula, and nuclear disarmament, and these were very good reasons for seeking to engage the Chinese. They were a major player in each of these questions - none of them could be solved without their acquiescence - and they were always on the bilateral agenda when our political leaders met. At none of the meetings which I attended did we sell our position short or proceed from an exaggerated view of our own importance or role: we simply sought to bring about some movement on matters in which we have a vital interest. The Chinese too seemed to value these contacts, and when in February 1984 an icy runway prevented Bob Hawke's aircraft from landing in Nanjing, Hu Yaobang followed him to Shanghai. The reason: to discuss the Cambodia situation.

Regarding the economic relationship, it is always difficult to answer the question of how successful a Government trade strategy has been. While the figures tell something of the story, one has to acknowledge that trade will of course take place in the absence of any effort by Government, and that some of the best efforts of Government officials will fail for reasons beyond their control. Accordingly it is necessary to apply some intuition and judgement to the assessment of Governmental efforts as well as to the selection of the areas in which they should best be directed.

In the case of China, the Australian Government was directly involved in the support of a very wide range of Australia's exports. Hence the objectives were set in terms of total exports, and these are some rough guide to the success of the China Action Plan during its approximately four years of operation (mid 1983 to mid 1987). Australia's 1985 exports to China (\$1271.6 million) were about 2.7 times the 1983 figure (\$467.3 million) - compared with the maximum objective of doubling trade in three years. The remarkable thing about the figures was that one major traditional item - wheat -

dropped by about \$180 million from 1984 to 1985, and 1985 was a year of rigorous application of foreign exchange controls in China.

In spite of this, total exports rose rapidly, and so did exports of elaborately transformed manufactures (ETM): China moved into our top ten ETM destinations in 1985. In 1986, China was Australia's third largest export destination (\$1579 million). Although the period around 1985-86 so far represents the high water mark of total exports and exports of both simply- and elaborately transformed manufactures, total export levels remain over the \$1300 million mark<sup>15</sup>.

In parallel with this China chose to make its first two major overseas investments in Australia: the Portland aluminium smelter in 1986, and the Mount Channar iron ore project in 1987.

None of this looks to me like a case of misdirected effort, and I think it is fair to say that a long term structural change in our economic relationship with China took place during the 1980s - one which we must seek to nurture and develop in the 1990s. I find it hard to criticise any of our political leaders for making an intensive effort to engage the attention of the government which rules 20 per cent of the world's population.

In closing on the subject of China, I would simply observe that if Bob Hawke misjudged China, so too did Hu Yaobang and Zhao Ziyang, with whom he had his closest working relationship, and for whom the stakes were ever so much higher. I think we would do well to spend more time regretting the passing of those Chinese leaders and less time regretting the fact that we made the effort.

### **The Japan Market Strategy**

The Japan Market Strategy had two major elements. Its prime focus was the diversification of Australia's export base by devising new programs to develop our trade in manufactured and processed goods.

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<sup>15</sup> For those who are interested in the complete time series, the figures for simply transformed manufactures (STM), elaborately transformed manufactures (ETM) and total exports over the period from 1983-84 to 1990-91 are:

	STM (\$Am)	ETM (\$Am)	TOTAL MANUF (\$Am)	TOTAL EXPORTS (\$Am)
1983-84	71.2	34.6	105.8	612.7
1984-85	232.8	51.8	284.6	1061.8
1985-86	265.2	101.0	366.2	1498.0
1986-87	194.1	116.1	310.2	1590.5
1987-88	81.3	71.0	152.3	1277.5
1988-89	135.1	87.3	222.4	1209.4
1989-90	112.5	61.0	173.5	1195.0
1990-91	87.4	97.3	184.7	1318.8

Second, there was a major effort to protect Australia's traditional export base by protecting or enhancing market share for major minerals, and seeking to enlarge access for agricultural commodities, including seeking entry for new items.

The first step in the development of the Strategy was a study of energy-induced changes to the structure of the Japanese economy over the period following the oil price rises of the 1970s, and an assessment of the implications of these changes for Australia.

This was undertaken by a Trade Development Council sponsored mission to Japan, led by Mr Denis Gastin, who had been a member of the research staff of the Crawford Committee, who had supervised much of the original research on Australia's trade performance in the 1970s, and who was by that time the Assistant Secretary responsible for North Asia.

The mission members were corporate economists from W.D. Scott & Co., BHP, Comalco and CSR, and the mission was an excellent model of Government-business co-operation. Almost a decade on, its report<sup>16</sup> is still worth reading, and in the current debate about the place of bilateral trade strategies it is a good model of the type of market-oriented analysis and approach which yields results.

It concluded that recovery of the Japanese economy from the early 1980s recession would not presage significantly better price and volume conditions for many of Australia's traditional exports to Japan.

It recognised, however, that alternative opportunities were emerging; in the words of the report, "strong demand growth is expected on intermediate goods imports and in personal consumption of non-durables, especially specialty goods and leisure related goods and services."

The report identified four factors to support the mission's view that there should be a sharper focus on the Japanese market:

- because of rapid industrialisation and income growth, Japanese consumption patterns were still forming, whereas in markets such as the United States consumption patterns were relatively settled;
- there was still considerable personal income growth potential in Japan, and the relative equality of income distribution would ensure a growing capacity for personal consumption;
- there would be new opportunities to meet business investment and technology requirements arising from planned structural changes in the Japanese economy;

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<sup>16</sup> *Report of the Trade Development Council Study Mission to Japan, on Energy Induced Changes to the Structure of Trade*, Department of Trade, Canberra, April 1983.

- the Japanese Government had embarked upon a policy of import expansion, particularly for manufactured products.
- This led to the development of the core program of the Japan Market Strategy, which was explicitly designed to capture opportunities in the areas of consumer goods and intermediate industrial goods. Two highly respected Japanese market research organisations were then appointed to report on opportunities for Australian manufactures, including processed foods, and services. The Nomura Research Institute was engaged to research prospects for Australian industrial products and Seibu Marketing Information Service was assigned the task of researching openings for consumer products.

Nomura and Seibu were asked to conduct their research in two phases - the first to identify opportunities in the market and the second to provide market entry strategies for particular product categories.

The program received high level political support. During Prime Minister Hawke's February 1984 visit to Tokyo agreement was secured for an exchange of missions to facilitate the process of identifying sectors of the manufactured goods and services markets which Australia could usefully try to penetrate<sup>17</sup>. The Australian Mission, led by Mr R.H.V. Douglass, General Manager, Merchant Banking, Westpac Banking Corporation, visited Japan from 1-11 July 1984. In its report to the Australian Minister for Trade the Mission recommended the adoption of a long-term view of building Australian manufacturing and services into Japan's plans for the twenty first century. It made a series of recommendations regarding actions which would assist Australian business to penetrate the Japanese market, and emphasised the themes of 'Persistence and Quality'<sup>18</sup>.

The return mission from Japan was led by Mr Isao Yonekura, President, C. Itoh & Co. The senior Government representative on the Mission was Mr Shinobu Murai, Deputy Director-General, International Trade Administration Bureau, Ministry of International Trade and Industry, and the Deputy Mission leader was Mr Shiro Miyamoto, Executive Vice-President, Japan External Trade Relations Organisation (JETRO). Prior to their departure from Japan, the Mission leaders paid a call upon Prime Minister Nakasone, who told them "that the destinies of Australia and Japan are

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<sup>17</sup> The securing of this agreement illustrates the importance of goodwill at the political level in carrying trade programs forward. Prime Minister Hawke made his request against the back ground of the Japanese Government's "access promotion missions" to North America and Western Europe - part of a program to ease trade frictions caused by Japan's large trade surpluses. Although Australia had a trade surplus with Japan, the Prime Minister requested similar facilitation, on the basis that we were seeking to diversify our economic relationship with Japan and would appreciate Japanese assistance in doing this. The Acting MITI Minister responded to the request in the following terms: "I have here a brief from MITI which advises me that you might raise this subject. It advises me to say 'no'. I am going to say 'yes', provided you agree first to send an export promotion mission to Japan. We think it is appropriate to have an exchange of missions." And so it was settled on the spot.

<sup>18</sup> *Report of the High Level Trade Mission to Japan, July 1984*, Australian Government Publishing Service, Canberra 1984.

bound by common interest and shared as common members of the same region, and that the prosperity of one country is impossible without that of the other"<sup>19</sup>.

The Japanese Mission's Report supported the Australian Mission's recommendation for a long-term view of developing manufactured and services exports to Japan, and made a number of recommendations for across-the-board activities, actions in specific fields, and follow-up activities which would support the objective. It stated that the key themes of Australia's efforts should be "Persistence, Performance and Price".

This exchange of missions led in turn to the foundation of part of the established infrastructure of Australia-Japan relations, the Australia-Japan Business Forum (AJBF). This body is oriented to the promotion of these "new" areas of trade, and in the first instance consisted essentially of the two sets of mission members. The Australian Committee of the AJBF has since sponsored two private-sector economic missions to Japan, in 1987 and 1992, along the lines of the 1983 Trade Development Council Mission which laid the foundation for the Japan Market Strategy.

It will be evident that we worked very closely with MITI on this program, and received very good support and co-operation from them. Unlike some of Japan's other major trading partners, we took announced Japanese Government policies and programs to open the market seriously and at face value, and related to them accordingly. We made submissions to the Japanese Government under the Three Year Action Program of Market Opening Measures (1985-88). We were the first foreign country to participate in the Specific Product Trade Expansion Program (STEP), with wine and furniture. The positive working relationships established with MITI in this context continue to this day, and there remains a group of influential officials in MITI who are very positively disposed towards Australia.

In Japan as for China it was clearly important to establish a performance test at the outset. It would clearly not have been valid to judge our marketing efforts on total trade; there are some very large items which Government supports in a policy sense but which it can only hope to influence at the margin. ETM figures indicate something, but in fact the Tokyo post was directly involved in some hundreds of millions of dollars worth of exports, many of them outside the ETM/service industry area<sup>20</sup>.

The test which I set therefore was the number of firms we worked closely with and about which we could honestly say we had had a significant impact upon their decision to enter the market and/or their entry strategy and/or their success. I was hoping that within the first couple of years we would have about a dozen firms of whom we could say this, simply to establish the point that Australia had a role to play in Japan outside the commodity area.

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<sup>19</sup> *Report of the Japanese Market Access Promotion Mission to Australia, November 1984: Persistence, Performance and Price*, Australian Government Publishing Service, Canberra, 1985.

<sup>20</sup> As the concept of "competitiveness" involves far more than simple price competitiveness - quality and reliability of supply being two other important elements - all products are "promotable" to some degree.

In fact by 1986 the post had an ongoing interaction with 80 or 90 firms with real prospects, and some were already posting significant achievements. Amongst the extraordinary variety of products which the program facilitated into the Japanese market were wine, furniture, solar hot water heaters, car rental services, automotive components, computer software, cut flowers, stock-feed and feeder cattle.

Our ETM exports almost trebled from \$88.2 million in 1984-85 to \$251.5 million in 1987-88 and had almost doubled again to \$485.1 million by 1990-91<sup>21</sup>. As important, Japan also became the destination for a rising proportion of Australian ETM exports. Japan took 2.8 per cent of total Australian ETM exports in 1984-85, rising to 4.6 per cent in 1987-88. Japan is now our fourth largest market for elaborately transformed manufactures (ahead of the United Kingdom and Hong Kong), taking 5.7 per cent of total exports in this category in 1990-91.

In 1986 total exports to Japan of manufactured and processed products, at \$1.33 billion, represented more than our total exports to the United Kingdom or Taiwan, and only a little less than our total exports to the Republic of Korea. Put another way, if we had exported no commodities to Japan in 1986, it would still have been our fifth largest export destination. By 1988, 26 per cent of our exports to Japan were manufactured and processed goods.

The message from the Japan Market Strategy was that a systematic strategic approach, which identified where the market opportunities were, produced a vigorous response from Australian companies across the board. This in turn showed that the Japanese market was not impenetrable, and encouraged others to try.

In developing a strategy for the promotion of manufactured goods and services in Japan, we recognised that success in these non traditional areas would require a major effort to protect the traditional commodity export base. If Australia's traditional export base collapsed, short-term economic management problems would severely constrain the Government's options in relation to re-structuring and the diversification of our export pattern.

Most of the decade was very difficult for our major commodity exporters, particularly beef exporters and exporters of steel making raw materials. There were strains in this area of the relationship on numerous occasions. Australia's terms of trade suffered some very dramatic reverses during this period.

The 1980s were also a period of enormous pressure upon Japan from the United States, with whom Japan consistently ran large export surpluses. We often felt that we were being engineered out of market share in areas in which we were a highly competitive producer - beef was an important example of this.

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<sup>21</sup> Total exports basis. The corresponding figures for Australian produce were \$73.4 million (1984-85), \$187.7 million (1987-88) and \$395.6 million (1990-91).

The approach which we adopted for the protection of our traditional export base during the period of development and implementation of the Japan Market Strategy had the following key elements:

- distancing ourselves from the hostile, "blame it all on Japan" attitudes of the United States and the European Community - we always worked on the basis that solving Australia's trade problems was our responsibility, even in contexts involving Japanese protectionism;
- seeking commitments (mainly relating to competitiveness being reflected in market share) from the Japanese Government in the course of high level meetings;
- better efforts to use Japanese internal processes for our own ends: we worked on the basis that we must respect and relate to Japan's internal processes of policy formulation, and in 1986 made formal submissions to both the Review of Japanese Agricultural Policy and the Eighth Coal Plan Review.
- efforts to acquire a better understanding of the system of regulations and incentives which causes Japanese businesses to behave in the way they do; and
- use of the Japanese media to develop internal debate on matters of interest to us.

I had the feeling that past Australian efforts to understand the Japanese "system" were too narrow: that we dealt with a particular Ministry as the agency responsible for a particular issue, and worked away at convincing them without really developing a thorough understanding of what went on behind the scenes. In other words we did not understand the factors which gave rise to the behaviour which one could observe in the administrative system or the market place.

For example, there was a commonly held perception that the coal trade was a purely commercial matter between the parties to the various transactions, and that there is no role for Governments in this business. This was the official position of both Japanese Government and industry, and was often stated to be the case by Australian industry.

But what, for instance, caused the Japanese electric power utilities to fight tooth and claw in 1988 to resist the price rise sought by Australian exporters of steaming coal to \$US36.75 per tonne when the spot market was over \$US40?

The reality governing the behaviour of the Japanese power utilities was:

- it was necessary to have a Government quota to import coal into Japan;
- in order to obtain a quota from the Japanese Government it was necessary to buy a certain quantity of high priced, poor quality domestic coal, thereby putting an upward pressure on the power industry's costs;
- in order to get a rate increase it was necessary to have the rating structure, and the cost structure, reviewed by a Japanese Government agency; and

- the only direction in which rates had been permitted to move in recent times was downwards.

So while the negotiations were "commercial" in the sense of being conducted between private companies, the Japanese Government requirements put an upward pressure on the industry's costs, a downward pressure on its revenues, and controlled its access to imported supplies.

We cannot hope to succeed in our trade strategies and trade negotiations unless we understand these factors.

Seeking political commitments regarding market share for competitive product is an obvious device, but it is one which involves risks as well as rewards. On his first official visit to Tokyo in February 1984, Prime Minister Hawke insisted that the joint Hawke-Nakasone communiqué address this issue in relation to both beef and coal. Australian and Japanese officials sat up most of the night before the Hawke-Nakasone meeting thrashing out mutually acceptable language, and as is often the case on these occasions, the path to a mutually acceptable position is to be found in ambiguity of language.

The formula which was adopted indicated that Australia's market share for beef would not be affected by any arrangements which were made with the United States; but what did that mean? This was a question which Bob Hawke was inevitably asked - and we knew he would be asked - at his Tokyo press conference. If he wanted to announce an achievement on behalf of Australian producers, he had to be able to say what the achievement was. He could use one of two formulae: either that there would be no reduction in tonnage (which we were fairly sure was what the Japanese had in mind) or that the communiqué meant literally what it said - that there would be no reduction of Australia's share of the market as it grew.

I assured the Prime Minister that if he announced the first, less favourable, of these two interpretations, that would certainly be what would be reflected in the market. He agreed and confidently announced to the press conference the interpretation more favourable to Australia<sup>22</sup> - an interpretation which caused a certain amount of consternation on the Japanese side and led to a number of "clarifications" being given to me by various Japanese officials<sup>23</sup>.

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<sup>22</sup> Herein lies the dilemma which creates a strong temptation for both Ministers and their advisers to avoid risks and confine themselves to generalities. Once a specific issue is engaged, there is a lot of "face" on the line, and it is often necessary to choose between pushing forward and allowing the potential political costs to mount, or beating a humiliating retreat. Ministers who announce that they have secured understandings on market access are often treated with scepticism at the time, criticised if the eventual practical outcome does not live up to expectations, and have their contribution forgotten if the expectations are fulfilled. What is rarely understood is that these announcements can themselves be part of the negotiating strategy.

<sup>23</sup> The terms in which these "clarifications" were put convinced me that the Australian industry faced a serious danger of its market access being held static while American beef was allowed in effect to capture all of the growth in the market.

This episode did not solve our beef problems overnight, but it certainly registered the seriousness of our concerns and led the Japanese to recognise our interests. It therefore contributed to the outcome in which the Japanese beef market was substantially liberalised a few years later.

Regarding the use of the Japanese media, we worked consistently to get stories and articles helpful to Australia's interests published in the Japanese media, as we realised that this would help to influence the perceptions of Japanese decision-makers. Japanese Governments are understandably more interested in what Japanese people think and want than in what foreigners think and want. I had two economic essays published as a guest contributor to *Nihon Keizai Shimbun*, both of which addressed the constant Japanese pre-occupation with reliability of supply of essential raw materials. The themes were that the best long term assurance of supply of foodstuffs and industrial raw materials was to rely on stable, competitive producers, at prices which would generate funds for re-investment. Denis Gastin (see above), by this time the Senior Trade Commissioner in Tokyo, wrote a monthly contribution to *Nikkan Kogyo Shimbun's* "Echo" column.

I considered it important to take up these opportunities, and thought that it did no harm at all for an Australian official to march in such distinguished company as Helmut Schmidt and Lee Iacocca, the contributors immediately before and after my first essay in a series devoted to understanding foreign economic perspectives.

The most successful exercise on the media front was the sponsored visit of a Japanese journalist in 1986. We invited a member of the editorial staff of *Sankei Shimbun* (daily circulation 2.5 million, the fourth highest in Japan) to visit Australia at our expense, both to cover the foundation meeting of the Cairns Group in the lead up to the launch of the Uruguay Round, and to obtain a firsthand appreciation of the scale and efficiency of Australian farming.

As a result of this the Sankei Editorial Committee decided to run an extended series on agriculture (60 articles), on the theme "the direction to which Japanese agricultural policy should be shifted", and approached the Australian Embassy for support in sending a specialist agricultural writer to Australia. His task would be to write six articles exclusively on the efficiency of Australia in various fields of production, such as rice, beef, dairy, fruit and vegetables, in order to contrast these with Japanese costs, prices and farming practices.

The series commenced with a New Year (1987) editorial message. The basic theme of the editorial was that Japan's growing national affluence had not been reflected in any improvements in the quality of life of its individuals and that the farming policies of successive generations of government, which had artificially held up domestic food prices and tied up scarce land resources, were largely responsible for this situation.

The editorial noted that some 10 trillion Yen per annum (direct budgetary assistance and consumer transfers) was required to maintain the current state of agriculture, a figure that exceeded the total amount of income tax paid by Japanese salaried workers. It recognised that an overnight dismantling of Japanese agricultural policies would not be practicable but it advocated a five year adjustment period gradually to reduce Japan's budgetary support for agriculture. The editorial advocated a greater role for imports in the process of agricultural reform.

The important point is that the Japanese public received this message not as a self-interested message from representatives of foreign producers, but as a Japanese message about what is good for Japan, from a highly respected Japanese newspaper.

The emergence of this type of debate in the Japanese media created a much more positive environment within which to enter the negotiations for a new Beef Agreement to take effect from the start of Japanese Fiscal Year 1988.

We were also aware that market demand for beef in an increasingly affluent Japan was creating a strong public pressure for liberalisation of the beef import regime. This pressure had led to total imports in JFY 1987 which were 37,000 tonnes above the level stipulated for that year in the relevant Beef Agreement.

These and other factors suggested to me that in approaching the beef access negotiations we had reasonable prospects of achieving fundamental reform. We should therefore avoid accepting Japanese assumptions as our starting point, i.e., we should not take the existence of the quota system as a "given" and simply argue about the extent to which the quota should be expanded<sup>24</sup>. Rather, we should frame our opening bid in terms consistent with what we were entitled to expect as a trading nation, namely free access for the goods which we produced in an internationally competitive way.

Taking that as our starting point, we developed a graduated negotiating position which would enable us to argue in turn for any protection of the market to be by way of uniform *ad valorem* tariff only, failing that by way of tariff quotas, and only in the last resort an expansion of the existing quota system. The outcome of the negotiations was tariffication of the Japanese beef market.

It is too simplistic to suggest, as some have done, that the opening of the Japanese beef market was simply the result of United States pressure. While Japan has certainly responded to United States pressures regarding the trade relationship, it has usually been quite selective about the areas in which it responded. Australian political pressure to liberalise the market had its part to play and there was close consultation on tactics between Australian and United States officials. Through these consultations the Australian graduated negotiating position was communicated to and had an influence upon the approach adopted by the United States.

I believe that important ingredients in our success in the beef negotiations were a correct intellectual starting point; a flexible negotiating position; our understanding of the pressures for liberalisation from within Japan; and a refusal to allow an

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<sup>24</sup> This was the starting point of the Australian industry and seemed to be that of the United States negotiators also, much as they wanted to see the market totally liberalised. I feared at the time that the United States would demand total liberalisation, and in the absence of agreement as the expiry of the current arrangement approached, suddenly settle for a bigger quota. My hope was both to obtain better access and to lay the ground work for future improvements by securing a change in the structure of the protective regime. For this approach to succeed we would have to do our best to ensure that it was not undermined by any United States negotiating strategy.

approaching "deadline" (the expiry of the current agreement) to deter us from adhering to our negotiating position<sup>25</sup>.

The significant structural achievement in our minerals relationship with Japan was to gain Japanese acceptance of the need for the minerals market to operate more flexibly and more consistently with the relative competitiveness of suppliers. In the mid 1980s we seemed in danger of becoming locked into an environment of relatively fixed market shares with a relentless downwards pressure on price. Also, I felt that our arguments in the past had placed too much emphasis on market share *per se*, and not enough upon market share as a variable which, when measured, ought to give a result which reflects the relative competitiveness of the various suppliers.

In 1986 we conducted a sustained campaign, of which our media articles were a part, to convince the Japan Steel Mills and the power utilities that the best way to assure continuity of supply was to provide efficient, low cost producers with returns which would both allow them to invest in new mines and new technology and provide them with an incentive to do so. At the same time, the best way to exert a discipline on price was to allow the various suppliers to compete for market share. We were confident that Australia would win a competition based upon price, quality and reliability, and the results have borne this out: our market shares for coking coal, steaming coal and iron ore have all increased. Given the sums involved, each percentage point of market share represents very substantial additional export income.

The Japanese Government made a striking proposal to put the relationship on an entirely new plane at the Australia-Japan Ministerial Committee meeting in Canberra in January 1987. The Minister for International Trade and Industry, Mr Hajime Tamura, proposed that Australia and Japan study the feasibility of establishing in Australia the joint development of a futuristic international complex as a focus for scientific, technological and cultural activities - the Multifunction Polis (MFP).

The basis of the proposal was a perception that Japan and Australia, as advanced industrialised nations strategically located at the northern and southern extremities of the Asia-Pacific Rim, were well placed to work as partners in the development of the region.

Given the economic power of Japan, its scientific, technological and cultural base, and its already strong influence throughout the region, this was an amazing proposal - one which suggested that Japan was prepared to regard us as far more than a farm and a quarry and to take us very seriously as a partner.

We spend very significant amounts of taxpayer's money developing "initiatives" to broaden our relationship with Japan, and on trying to encourage Japanese investment in Australia, but when a real opportunity presented itself, we could not bring ourselves to grasp it. Our response was slow, half-hearted and timid. It took us several months to agree to do a feasibility study, and the Japanese were amazed to

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<sup>25</sup> We made it clear that we were prepared to allow the existing agreement to expire rather than sign an unsatisfactory agreement simply for the sake of having a new agreement to operate back to back with the old.

discover as the work proceeded that this really was a study about whether to proceed, rather than one aimed at defining the parameters which would enable the project to proceed on a basis which would give it a high probability of success.

It took another two years to select a site, and a further two years to give the project the go-ahead. At the time of writing, almost six years after the proposal was first made, the South Australian Government has only recently enacted legislation to set up the necessary Development Corporation, and is in the process of seeking out a chief executive.

In order to make the most of the opportunity which the MFP still presents it will be necessary for us to convince the Japanese (and other international) champions of the project that the Governments involved and the community at large are committed to make it succeed. In a country remote from the world's main centres of economic activity, a high level of local commitment is more than usually important.

For the future, managing our economic relationship with Japan is something to which Australia will have to be prepared to devote far more effort and skill. Japan is still the destination for about 27 per cent of our exports, and if we cannot get this part of our external economic relationships right we face a difficult outlook indeed. The success with which we manage our economic relationship with Japan, especially in the contexts of the Asia Pacific region and emerging trade blocs, will determine many of our economic options, including options relating to domestic economic management, industry restructuring and employment growth.

First hand observations over the last 15 years lead me to be far from optimistic on this score; we need to apply far more energy, resourcefulness, intellect, strategic thinking, cohesiveness, determination and persistence to the management of our relationship with Japan than was the case during the 1980s. We send too many confusing signals and there is too much empty rhetoric. Japan is no monolith, but overall it handles its end of the bilateral relationship very well; if we wish to obtain what we would consider to be a reasonable share of the economic benefits of the economic relationship, we have to turn in a comparable performance.

## **India**

The targeted approach to the China and Japan markets appeared to find sufficient favour with Government for its application to be sought in relation to India.

Australia's relationship with India has traditionally been an amicable one based upon Commonwealth links, common institutions and shared historical experiences. Even until the mid-1980s, however, Australia's relations with India were conceived either as having essentially strategic objectives such as the reduction of superpower rivalries or as providing the opportunity for discussion of wider international issues.

Rajiv Gandhi's visit to Australia in October 1986 gave strong impetus to the relationship, especially the economic relationship. Although it was initially planned as a goodwill visit, practical proposals for the development of the economic relationship emerged from the visit. Most notable among these was the identification of the Piparwar open-cut coal mine and washery as a potential area of co-operation. Another was the establishment of a Joint Business Council to promote trade and

investment between the two countries. Nevertheless, there was a feeling by the end of 1988 that the relationship was again beginning to languish.

In late 1988 I was asked to visit India in preparation for a return visit by Prime Minister Hawke, which took place in February 1989, and I made about eight visits to India over the next three years.

Bob Hawke's return visit gave a significant and lasting stimulus to the commercial relationship. A three-year \$35 million development assistance program designed to foster mutual economic benefits was announced during the visit. A Memorandum of Understanding on Concessional Finance was signed during the visit, as were memoranda dealing with co-operation in the fields of meteorology and railways.

Discussions between the two Prime Ministers also led to the setting up of a Joint Ministerial Commission which had its inaugural meeting in Canberra in July 1989.

Visits to India by Australian Ministers became fairly regular, whereas previously they had been a rarity. There has been a steady stream of trade missions, business delegations and individual commercial visits, and India's potential to be an important trading partner is now far better understood. In mid 1992 Foreign Minister Gareth Evans announced the establishment of an Australia-India Council to contribute to the development of the relationship.

The results to date of this more energetic activity to promote the trade side of the relationship have been respectable, but the full fruits have yet to be realised. Australian exports to India have grown from \$425.5 million in 1985-86 to \$672 million in 1990-91 - an increase of 36 per cent. The White Industries Ltd open-cut coal mine at Piparwar in Bihar State, the hard currency cost of which is being financed by an Australian concessional loan of over \$200 million, is the largest project ever financed with an Australian mixed credit facility.

Some doubts have been expressed as to how much more growth there can be in Australian trade with India in the short term.

I would argue that the limits to growth in the commercial relationship have not by any means been reached. During my several visits to India I was exposed to a wide spectrum of Government and private sector thinking concerning India's economic policy direction. Until the outcome of the mid-1991 elections in India, there was a general expectation that there would be little change in official pronouncements on economic policy - that "reform by stealth" would be the approach dictated by political necessity. But the challenge posed to India by the seriousness of its economic predicament, and the Narasimha Rao Government's firm response to this challenge, have ushered in a climate of reform in India which will clearly offer very significant opportunities for a marked enhancement of the bilateral trade relationship.

As a result of earlier efforts, several Australian companies are well positioned to take advantage of the new, more open policy environment. This is the real value of the efforts which have been made in India in recent years. There are more Australian companies thinking seriously and in an informed way about India, and Indian companies thinking about Australia, and each country now commands a higher profile in the other, not least in the thinking of the two national governments. If we were

only now starting the process of intensified effort and contact, we would not be as well placed to capture the benefits of Indian economic liberalisation.

Of course India remains a market in which Australian business executives and supporting government agencies will need to put in a lot of painstaking work in order to obtain commercial rewards. In this respect it is no different from most other markets in our region, many of which have received far more attention from Australian business than has India. The relative transparency of Indian economic decision-making, a legal system based on common law, and a corporate culture that is largely comprehensible to Australians makes the task somewhat more manageable than in many regional markets. Against the backdrop of continuing economic reform, India must continue to emerge as a more important trading partner for Australia.

## **Conclusion**

Perhaps the central question to be addressed in relation to Government trade strategies of any kind is whether they are worth having at all - do they add value? I have often encountered the view that these programs deliver nothing - that private businesses best know their own business, and Government officials ("bureaucrats") have nothing to teach them. A variant of this theme is the proposition that the business would have been done anyway.

I have also encountered the view in relation to country-oriented programs that it is not right for Government officials to be "telling" companies where they ought to be selling their products.

These viewpoints are superficial in the extreme. One of the central tenets of perfect competition theory is the availability of perfect information. In the real world, international markets are a far cry from the perfect competition model, but information about market opportunities and the needs of customers remains crucial. Throughout the 1980s Australian businesses suffered from insufficient capacity utilisation, so there is no doubt that many Australian businesses have been unable to identify customers who would take all that they could technically produce at the price at which they could deliver the product to the customer.

There are of course many reasons for this inability to clear the market at a full production level. One is a lack of competitiveness on the part of the business concerned, due to work practices, management factors or ageing plant within the enterprise. Another is excessively priced business inputs due to lack of micro-economic reform elsewhere in the economy, or taxation of those inputs, or both. Yet another is changed economic conditions in traditional markets.

It is undeniable, however, that an important factor is the unavailability of information which enables suppliers to be matched to customers quickly, effectively and at reasonable cost. This is what the targeted country-oriented trade strategies of the 1980s sought to do.

It should also be borne in mind that our export community is not a fixed population of experienced exporters. It includes firms of every size, level of experience and level of commitment. Helping firms to enter the market, and to identify the right market to enter, is a key part of the equation. There is thus an important confidence factor.

Many firms which have good, competitive products but no international experience will hesitate to enter export markets because they are not sure which market to enter or how to go about it. Their resources are limited and they have to be sure that there is a sufficient likelihood of success to warrant the commercial risks involved in attempting to enter a new market.

Also, in any bilateral trading relationship there are some tasks which can only be performed by Government.

At the start of the 1990s the idea of targeted country programs involving a substantial commitment of senior officer time is far more accepted than it was in the mid 1980s. It is, for example, an approach which has informed the most recent re-organisation of AUSTRADE. Public Service Departments involved in our economic relationships need to make a similar commitment of senior resources: the all-important access to the senior officials of our trading partners is available only to the people in our system they would consider their peers, and continuity of personal relationships is vital throughout the region.

The conclusion to be drawn from the programs outlined above is that a systematic, research-based strategic approach which identifies where market opportunities are will produce a vigorous response from Australian companies across the board. Accordingly, targeted bilateral trade strategies involving close co-operation between the Government and the private sector are well worthwhile, subject to a number of conditions:

- they must flow from in-depth research - and the devil is in the detail;
- the strategy is only a piece of paper unless someone implements it - it must therefore be a program of action with clear targets, methodology, priorities and a budget;
- there must be one Government strategy and a disciplined approach within an established time frame - there can be a Government strategy or a "do your own thing" policy for individual agencies, but not both;
- "opportunities" must be followed right through or until it is clear that they cannot be secured. Half completed tasks represent no gain: tasks on which action is complete can be succeeded by new tasks;
- this means that there must be a narrow agenda which realistically relates the tasks to be done to the available resources;
- we must not expect anything worthwhile to come quickly or easily;
- we must remember that in all our major markets we are in vigorous competition with others whose performance we must outclass - and that they will be continuously improving their performance;
- Government and business must approach the task as an exercise in communication, both between our public and private sectors and between Australia and the target market;

- as a community we must also approach the exercise as a learning experience. We must be prepared to take risks and accept mistakes, and to learn from the study of past approaches;
- it is important to make constant efforts to review and overhaul the instruments at Australia's disposal to ensure that they can effectively support our trade efforts.

For co-ordinated Government strategies, it is of the essence that some one person be responsible. This is the essence of good management and accountability; a strategy is not an aggregation of "bits". The separate elements of the strategy must all pass through one mind, and we cannot hope to mount a major sustained effort on the basis of part-time involvement: if we want to achieve major corporate goals, some identifiable individual must be responsible.

The human resource element is vital. The development and management of an effective bilateral strategy does not require huge staff resources; the combination of a team atmosphere, real responsibility, and clear measures of success are powerful motivators and act to ensure high levels of commitment and productivity. The team must, however, be in a position to manage the process: it must have the necessary high level backing to enable it to be listened to and to ensure continuity of adequate resources and of program focus, it must be able to respond quickly to new situations as they arise, and it must be able to make decisions.

Success in strategy development by government agencies will depend upon:

- their capacity to relate social, economic and political trends in target markets to Australia's economic goals;
- their understanding of the governmental and bureaucratic structure in the target market, and of the implications of any reform thereof;
- a dynamic approach which cross-references trade objectives to improving competitiveness in Australian industry as a result of domestic economic reform or changes in individual workplaces;
- a willingness to take responsible risks - nothing will be achieved if the predominant objective is to avoid mistakes or embarrassment;
- a willingness to match resources to the task in hand or vice versa, and to be rigorous in the setting of priorities.

Above all, it is important for Government to remember that it is in the business for the public benefits which accrue to Australia beyond the private benefits which accrue to the firm, and to ensure, therefore, that it works hand in glove with its private sector clients.