Key Challenges and Solutions in Successful Commercial Ventures in Asia

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Future Australian Governments should look to an 'aid and trade' strategy to promote economic development and growth in the Asia Pacific, and Indian Ocean regions. This means using aid as the 'starter motor', and trade as the sustaining engine, of longer-term economic development and growth.

Encouraging economic development and growth in developing countries in the Asia Pacific region is important for the individuals and the countries concerned. There are also important regional, indeed global, dimensions to promoting economic development and growth in the Asia Pacific region which are in Australia's national interests. At their broadest, there is the reward of seeing others lifted from poverty into higher sustainable living standards, which in turn encourages stability and prosperity in our region and, ultimately, trade opportunities for Australia.

The traditional Australian mechanism for promoting economic development and growth in least developed countries/areas has been our international aid program. Commerce and industry, while supportive of a targeted aid program, sees a prominent role for trade in economic development and growth: in effect, a 'trade and aid' strategy. This does not mean 'trade to the exclusion of aid', but using these two avenues in a sequential and integrated fashion: aid as the 'starter motor' (through capacity building), and trade as the sustaining engine of longer-term economic development and growth.

Trade reform

One of the lasting impressions of the failed Seattle World Trade Organisation (WTO) Ministerial meeting was a call by a prominent diplomat from a Third World country for 'trade before aid'. In short, the Ambassador's message was: 'the best form of economic development is more international trade, commerce and investment.' This, ostensibly, means two things: a stronger, rules-based multilateral trading system, and better access to developed country markets.

Numerous international studies point to the economic benefits of trade and investment liberalisation for the world, and for developed and developing countries.

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Estimates by the WTO, the Organisation for Economic Cooperation and Development (OECD) and the World Bank put the benefits for developing countries from the Uruguay Round of trade liberalisation negotiations in the range of $US 55 billion to $US 93 billion annually. Each these bodies has pointed out that the benefits of liberalisation are proportional to the degree of liberalisation: those who liberalise most, gain most. Other research by the World Bank for its landmark 'Asian Economic Miracle'[23] report, and the Asian Development Bank for its 'Emerging Asia'[24] report, tell much the same story.

[23] *The Evolving Role of the World Bank: Helping meet the challenge of development.* K. Sarwar Lateef (ed.). c1995 World Bank, Washington, DC. 230 pp.

[24] *Emerging Asia: Changes and challenges.* Asian Development Bank. ADB, Manila, Philippines. 1997 337 pp.

In short, the main drivers of economic development and growth in the Asia Pacific region over the past 40-odd years have been: competitive domestic markets; trade and investment liberalisation; and, sound education (both primary and secondary). Although the sequencing and emphases may have differed between countries, the basic ingredients were much the same.

While the Uruguay Round of trade liberalisation negotiations delivered substantial trade reforms, and benefits, much more remains to be done, and thus substantial benefits remain to be realised.

Developing countries also have a more active and direct role to play in setting the agenda of a new WTO Round and actively participating in the negotiation process. As developing countries now constitute a numerical majority (around two-thirds) of WTO members, they must be players, not passengers, driving the engine for trade reform. Their agenda, of course, is not mutually exclusive of that of many developed countries. For example, there is common ground between many developing and developed countries on key issues such as trade and environment, and trade and labour standards. To put it in simple terms, developing countries regard calls by some developed countries to link environment and labour issues to trade, at best, as attempts to neutralise their comparative advantage, or at worst, little more than backdoor protectionism. As the Brazilian Foreign Minister observed: 'We stand absurdly accused by new and old protectionists alike of taking advantage of the doubtful benefit of being poor.' Developing countries are quite right to resist strongly calls for the inclusion of environmental and labour clauses into multilateral trade agreements because of their unjustified intrusion into the comparative and competitive advantage of developing countries, and corrosive impact on the rigour of the multilateral, rules-based trading system.

Other important agenda items for developing countries in a new multilateral trade Round include issues relating to ongoing implementation of existing commitments under the Uruguay Round. Some developing countries point to the ongoing difficulties they are having in implementing existing commitments, without taking on additional liberalisation requirements. Unfortunately, for outsiders, it is not always clear cut as to whether national governments are lacking the necessary political will to press ahead with the necessary reform process, succumbing to pressure from domestic protectionist forces, or genuinely challenged in implementing their Uruguay Round commitments.

Regrettably, some developing countries seem to want to renegotiate their commitments under the Uruguay Round, allowance of which would create an undesirable precedent and place untenable pressures on the multilateral, rules-based trading system. While such matters have to be determined on a case-by-case basis, for least-developing countries there may well be greater substance to incapacity issues. The solution, however, does not necessarily lie in delaying or resiling from further reforms. Rather, greater effort may need to be applied to what in the lexicon of diplomacy is called 'capacity building': that is, economic and technical cooperation from developed to developing countries to help developing countries to help themselves.

The Australian Government has numerous such programs in place- for example, the 'WTO training programs' which operate out of the Australian National University and the University of Adelaide to help trade officials from developing countries better understand the WTO system. All up, the Australian Government spends around $A25 million annually on such technical assistance programs. Commerce and industry considers this money, in principle, to be well spent.

Finally, on the trade issue, it is worth observing that Australia offers many of the least developed countries (LDCs) what amounts to 'WTO-plus' access to our market. In simple terms, they have duty-free access for 85% of tariff lines, with 93% of LDC imports coming into Australia duty-free or quota-free. It is encouraging that other developed countries are following our example, such as the European Union with its 'Anything but Arms' initiative. Others, such as Japan and the United States, could usefully follow suit, recognising the clear incoherence in efforts by developed aid-donor countries to promote a greater understanding of international trade when they maintain artificial barriers to the exports of developing countries.

Targeting aid

Australia's overseas aid program, under successive governments of both political persuasions, has long been oriented primarily toward poverty alleviation: attempting to use our aid spending to kick-start and then sustain economic development and growth in recipient countries. Taken as a whole, commerce and industry have not seriously questioned these core objectives.

Australia, as a developed country member of the community of nations, has an obligation to assist lesser developed countries to move upward along the development/growth curve. In some of the more serious cases of absolute poverty, effective and targeted aid programs are the essential first step towards self-sustaining economic development.

Like many others, the Chamber made a considered submission to the Simons Review of Australia's aid program undertaken in the latter part of the 1990s. Encouragingly, many of our proposals were embraced, both in substance and in spirit, in the final 'Simons Report'[25]. The essential message we sought to send to the Committee of Review was that the 'solution' does not necessarily lie in applying more monetary resources to the aid-poverty problem. Rather, it may well be found in more efficient and effective targeting of existing funds, both by governmental donors, other providers and recipients; taking action on the root-causes of absolute poverty, rather just dealing with the obvious symptoms; and looking beyond governments to a role for the private sector, through both individuals and enterprises. Like the Simons Review, the title of whose report was *One Clear Objective*, the Chamber called for a clarification of the objective(s) of our international aid program.

In our view, the primary objective of Australia's overseas aid program must be to tackle absolute poverty at root-cause, to the benefit of the recipient, allied to which is the promotion of economic development through a market economy as a permanent means to alleviate poverty. The Simons Review echoed this sentiment, recommending our aid program focus on a single and unambiguous objective: 'to assist developing countries to reduce poverty through sustained economic and social development' (page 2).

Commerce and industry, by and large, welcomed the key recommendations of the Simons Review. Without listing and commenting upon them exhaustively, they include:

- The principal motivation for our overseas aid program is humanitarian compassion;
- Our overseas aid program should focus more consistently on outcomes; and,
- The program should be innovative and responsive to changed circumstances.

Furthermore, the aid program should also be used to foster good governance policies and practices in recipient countries. Foreign policy and commercial outcomes must rank behind poverty alleviation in priority setting and program implementation: the Simons Review, especially given it was chaired by a prominent businessman, was particularly critical of the 'commercialisation of the aid program'. The final report observed: 'The commercial orientation of the aid program has, at times, been a major factor in determining both the types of activities undertaken and where they have been targeted – at considerable cost to its development effectiveness.' (page 3).

While commerce and industry would take exception to any claim 'business interests drove the aid program', we accept the Australian aid program should be delivered to the principal benefit of the recipient. The two ideas, however, are not mutually exclusive, or even incompatible. Australian firms should not be excluded from participating in delivering our national aid program merely because of their commercial orientation.

[25] *One Clear Objective: Poverty reduction through sustainable development. Committee to Review the Australian Overseas Aid Program* (Chairman H.J. Simons). 1997 (Australian Agency for International Development, Canberra) 350 pp.

We do not accept that government or non-government organisation (NGO) aid bodies are best able in all circumstances to deliver all aspects of the Australian aid program. The needs and priorities of recipient countries should be determined in consultation with them, and then the best means of delivering our aid commitments, and the optimum and relative roles of business, government and NGO aid agencies, should be determined.

In some instances, the lead role may be with government and the NGO aid agencies, with a minimal or no role for business. In other cases the primary role may fall to commerce and industry, for example in the supply of manufactures or services which are needed by the recipient country, and/or in the supply, installation, training and/or operation of large-scale capital assets, such as major infrastructure projects.

Building or upgrading airports, seaports, and communications, power and transportation systems is the proper function of commerce and industry within any comprehensive aid program.

The springboard to Asia

For many small firms the Australian aid program is a 'springboard' into new markets in developing Asia and the Pacific Islands. For such enterprises, especially those 'getting into trade' for the first time, the aid program affords them a pathway into new experiences and markets. This 'market entry' is often done in one of two ways: by 'piggy-backing' on a larger enterprise; and/or by going in directly themselves.

In the case of 'piggy-backing', a larger firm (say an infrastructure constructor) that wins a contract under an aid program may engage a small firm (often a consultancy or small manufacturer of niche products) to go along with them. Thereafter, having 'learned the ropes' and/or made new contacts in a relatively low-risk situation, the small firm may stay on to develop new business opportunities.

Small firms can also enter new markets more directly, again using the aid program, for example by winning small tenders from government agencies, most notably (but not only) AusAID, and the Department of Foreign Affairs and Trade. These agencies let specific tenders for precise products or services destined for specific countries, or seek proposals for products or services within the frameworks of particular programs, many of which have a capacity building or rural development focus. Either way, it is an opportunity for a small firm to enter new markets with minimal risk: local awareness of their products or services and/or their new-found experience in these markets acts as a springboard.

Although such outcomes are not the primary purpose of the aid program, they are an incidental benefit - 'a positive externality' in the lexicon of economics - for Australia.

The 'aid pathway', of course, is not the sole strategy used by Australian firms, especially smaller ones, for commercial engagement with developing Asia. Most firms adopt other indirect or direct market entry strategies.

The Chamber movement in Australia delivers the Export Access training program which is designed to teach small firms how to become successful and sustained exporters. A high proportion of the participating firms have looked to Asian markets as their first step into sustained exporting.

Other approaches to commercial engagement in developing Asia and the Pacific come from expatriates now living in Australia either as business- or labour-skilled migrants, or those who came out as humanitarian or social program migrants and who have subsequently gone into business. They use their linkages to 'the old country' as the vital sinews of commercial networks for trade and commerce.

Research undertaken by the Chamber on the post-arrival experience of business migrants during the 1990s indicates that a great many such migrants export back to their country of origin in the first instance, before diversifying into other export markets.

And, of course, many Australian firms go directly into their markets. They learn of business opportunities from participation in trade fairs or trade missions, 'cold contacts' by emails, from people visiting their website (a powerful marketing tool), from reading relevant news media, and/or from tip-offs from colleagues, or their Chamber of Commerce. Where they establish joint ventures with local counterparts and/or a direct presence in their targeted market there are transfers of financial, but potentially even more importantly, intellectual capital. Locals can adopt and/or adapt this 'know how' to enable them to succeed in international trade and commerce and thus stimulate a domestic market economy as the engine for sustained economic development and growth, and through it improvements in the human condition.

Conclusion

Promoting sustainable economic development and growth in the Asia Pacific region is a 'win/win' situation. Clearly, it is a win for the individuals and countries concerned. It is also a win for Australia through a more stable and prosperous region. While targeted aid programs can act as the 'starter motor', international trade and investment are the 'ongoing engine' of economic development and growth. In this regard, Australia should promote an 'aid and trade' approach to tackling poverty in the Asia Pacific region, or indeed wherever it is found.