

FIRST OPEN FORUM

Chaired by the Honourable VICENTE JAYME

(Delegate from Indonesia, question to Mr. Healey re-investments in Australia by Asian Investors): *I understand in Australia there is a certain resistance to investment from Asia, particularly from Japan. Do you think that problem is as serious as the problem you are encountering in Asian countries?*

Mr. Healey: I'm actually not too sure of discouragement of foreign investment in Australia, particularly with Japan. The one exception occurred some six to eight months ago regarding the investment in domestic properties and I think that was in response to some quite dramatic increases in house prices in Sydney. This however, is a consequence of floating our dollar some years ago which makes a significantly less expensive dollar than we had then. This makes Australian real estate look extremely cheap to our Japanese friends. Philosophically, I am against anything that frustrates free trade. I don't agree with the particular ban on real estate because where do you begin and end. If you want to encourage foreign investment then you should encourage it across the total front.

(Question from Jim Stewart, formerly Australian Staff College, now in private consultancy): *Mr. Healey's talk inspired me to wonder if what we do re investment is really relevant to the great mass of the people. Do we invest in the activities of the elite and leave the big problems of the country untouched?*

Mr. Healey: We would all be kidding ourselves if we did not recognise that some of the wealth that is created does not flow down as efficiently as we would like. However, I wouldn't take the point. I think that investment is worthwhile. The only thing that I have been concerned with over the years is perhaps the degree to which wealth that is created flows down. I certainly don't believe we can solve the problem by walking away from it. I think we need to bear whatever influence we can on the authorities, in the context of being good citizens, to try to improve the situation. To a great extent our hands are tied. The responsibility of actually doing something about that situation really rests with the people in the host country.

(Question from Ian Dillon, Industrial Chaplain working with the Inter-Church Trade and Industry Mission): *My interest is overseas debts of Third world countries and their increasing inability, not only to meet the overseas debt but also to service the charges. I think, of the overseas debt, more than half of that is owed by ten countries - three of which are in our region: South Korea, Philippines and Indonesia. The individual people themselves are forced by their governments to repay these debts. This, no matter how much of a human face it has, is not development. It is degradation. The Church comes in with Bishops Conferences, with something like 30 Commissions for justice and peace, and something like 300 Reports from these countries, all addressing the ethical and moral point about the legitimacy of those debts in the first place. Any comment?*

Dr. Seda: You are right. The debt surplus in many countries is now in crisis. If we take my own country, Indonesia, we have a total debt of about \$45 billion. The Government says it is only about billion. This year we have to set aside \$6 billion to pay the debt. It's around 45 percent of our budget. Because of this, we have to curtail all development and that means the welfare of the country and the development of infrastructure. The debt has to be repaid. But I think the problem in the world today is not a problem for the debtor countries but a problem for the creditor countries. The debtor countries can say I'll pay and they do not pay. But then morality comes into play and continuity of international linkages of trade and financing. So I think we need to pay more attention to the creditors, the mentality of the creditor countries. Most of the Commissions seem to be directed to the creditor countries. It is up to you to answer now.

Mr. Healey: It is not up to an Australian to answer to being a creditor country these days. We also have some distinguished bankers in the audience and it is probably their money that we are talking about so I'm a bit diffident about giving the answer. Actually I'm very optimistic. The history of the world seems to show that things get done in a sympathetic and human way and while for the debtor nations, it might not seem to be happening quickly enough, I do believe and sense that creative ways will be found to achieve what can be conflicting objectives. That is, on the one hand reducing the heavy burden of debt servicing, while at the same time maintaining international standards of responsibility. I really don't have the answer as to what will happen. But if you look at history, in spite of the fact that we tear ourselves to bits every 25 or 30 years, we also display astonishing humanity. I hope a creative solution will be found.

Hon. V. Jayme: Would Mr. Ross have something to add?

Mr. Ross: As Mr. Healey said, Australia's debt is about twice that of Indonesia. We're having even bigger problems. But really what it comes down to is the use to which debt is put. Essentially, what it means is that if a country is building up debt which it does not have the prospect of paying fairly comfortably, it means that the funds that are being borrowed are not being used wisely in terms of investment. In Australia's case, what we are doing is funding the consumption of living standards beyond our own ability to produce and the day of reckoning will come. Australia's percentage of exports needed to service debts is not quite as Indonesia's because of the size of our exports. But we're getting up to that same percentage. I support what Brian Healey says. We really need to get our objectives straight, and that is, for a country to increase its standard of living it needs to create an environment that is going to encourage investment that will generate surpluses. And then it needs to have in place an environment and system that will ensure that people generally will benefit from the fruits of that investment. In other words, there are the two aspects both of which need to be focused upon. Firstly, the creation of wealth. People will respond to the right sort of incentives. Behaviour will be conditioned by what the rules are. So you need to have in place something that will generate wealth – and also have in place a means of making sure that that wealth is distributed equitably. That is, that there is an efficient taxation system. There is efficient spending. There isn't waste. And when savings are taken in from the citizens of other countries, those savings are invested to earn a return. Any foreign investment that comes in and generates a return must have a benefit both to those who invest and to the community in which the investment is made. Secondly, you need both the environment that will generate the wealth-creating activity, the means of distribution in place that will distribute the wealth to the stakeholders, that is, the shareholders, the

employees, the community in general and the government. This would cause investors to reinvest and it would cause governments to do the right thing by their assistance.

Hon. V. Jayme: One of the cardinal rules for a chairman is he is not supposed to be involved in the discussion and I will follow that. However, he's allowed to share information. In the last Interim Development Committee meeting held recently in Washington, in the summary of the communique that came out, it was clear that in so far as the group of 24 in the developing countries were concerned, a fear that has been expressed by Frans Seda, they are not happy with the options that have so far been brought up. They continue to say that a "Barker" approach is not adequate. In the case of the in the industrialised countries, their position has been described by Mr. Ralph, that growth is the answer. We need to continue to explore the different options that will allow developing countries and creditor countries over time to allow themselves to find some sort of mix. Therefore there has not been a clear formula that has been agreed to between the developing countries and industrialised countries.

(Question to Mr. Healey, from a delegate from a developing country): *We fully understand the role of multinational companies in our part of the world and we really appreciate the multinational investments which we badly need but I disagree somewhat with Mr. Healey that if you bring in technology, foreign investment and management skills, and look after your workers and improve their quality of life, you expect that the countries will channel your contribution through taxation and government channels. But sometimes in the developing countries it doesn't work out that way, that is, through taxation of the government. That is why we have a lot of non-government organisations. What I hear at this Congress is a little bit beyond the normal government role. We are here to try and go deeper in finding out how to go out of our normal way to help the underprivileged. Are the multinational companies willing to join us in this movement?*

Mr. Healey: I agree with the philosophy behind your question and I have not done justice to my company if I have left you with the feeling that we do not think we have a responsibility beyond the profit motive. In fact we have a policy of spending two percent of our pre-tax profit on community activities. This is standard worldwide practice, which, given the size of Sara Lee Corporation, represents a significant amount of money. In answer to your question I think we should do more and we're certainly not unique among multinational corporations. Generally speaking, we have a greater responsibility for the communities in which we operate. In our company we have four management goals, one of which is directed to public responsibility. And each of our managers around the world are assessed on the basis of the contribution that they in fact make to the community in which they live and work. We encourage, for instance, people to join charitable organisations. We encourage them to be involved in politics. In fact, we give them insurance cover for activities done outside the workplace as in community affairs. I still believe though that the greatest benefit to flow from investment is in fact wealth creation. But we do many things as well outside the workplace.

(Debra Smit from Acclimatised Consulting): *First a comment, then a question. The fact that we are speaking English in this Congress shows that our Asian friends understand much better how our minds work than we have been able to appreciate them. And I thank them for that, the fact that they have taken the trouble to learn English. My question is to Mr. Seda. I am very interested in the managers who are sent from*

Australia to work in Asia. That is mainly what my business does. I think it is vitally important that we send people interested in the human face of management and themselves as ambassadors of sorts, which I truly feel they are. I would like to know if you had your wish, what kind of ex-patriates, what kind of Australian or American managers would you like to have to come and work with you? What are the characteristics you would like to see them have?

Dr. Seda: First, they should be professionals. Second, they should be good Australians. Third, they should have what I call 'social engagements' and look at business as an agent of development, not only as a profit centre. You can only develop by profit. But don't reduce the business only to a profit centre, but see it as an agent of development of that country. I think then you are safe.

(Comment and question): First I would like to congratulate two organisations for having successfully shifted the blame for the third world debt to the private sector and the Church. And those two successful organisations are the Bank and the Government, because it is bad judgment which led to the third world debts right now. The question is directed to Mr. Seda and also to future speakers. We're talking about human development. And from what I can see, the most important factor about human development is for a person to have a job. And second, if he can afford it, an education. I think in the Asian context these would be the most important for human development. So far I haven't heard much comment about them. I hope future speakers will touch upon them. I would also like Dr. Seda to expound on the learning organisations.

Dr. Seda: I think you are right. The basic requirements for human development in Asian conditions are job and education. In Indonesia, we say our exports are increasing because we have the advantage of low salaries. That is not true, I think, because low salary and low productivity means you are in the same infinite circle. That means we need work and we need skilled labour. That should be the path of human development in our region. It is the task of private business and government to supply work and jobs as it is also the task of business and government to educate the working force to achieve greater productivity. Multinationals should improve education and training in their companies for our people to increase their ability.

Second, a failing of the Asian businessman is that we are very quick to follow the thinking of the industrialised countries. We are still developing. We are still to learn. So don't be satisfied with what you have reached in one stage. We are always to develop. Because by developing ourselves we continue to develop other countries. Learning organisations should always be open to learning experiences that may be gathered from other people as well as experiences in the past.

(M. Kalaw, Philippine Institute of Alternative Future, comment to Mr. Healey): The impression I am getting is that we are focusing on wealth creation as part of the solution for Asian problems. But I don't think we are focusing enough on business as also part of the problem. My feeling is that wealth creation from foreign investment is not inherently good. There are some kinds of foreign investments that are exploitative in nature and create wealth for a few for over a short period, such as exploitation of natural resources, timber, mining, etc. And as a process, we should be looking at how we earn wealth rather than how we spend it. Dividing income can be only an afterthought. The

process of real development is how we create that wealth. I wish more focus would be put on how business is part of the problem as well as part of the solution. My question is addressed to Mr. Healey because his proposition is that investment is inherently good, which I disagree with.

Mr. Healey: I don't think there is a perfect system. And I think individual countries and regions can find examples when an investment was exploitative. But I would certainly take issue and disagree strongly with the alternative position that because some foreign investments are exploitative, then all foreign investment is bad. Such a view was strongly held in Asia in my time. And I believe that is one of the factors that has held back the development of Asia. Again as I tried to point out in my speech, we tend to think that foreign investment is in fact a 20th century phenomenon. But that is not true. Foreign investment, as I pointed out, has been contributing to wealth creation for thousands of years. And certainly people in this room now are in fact defending foreign investments. So I am really not sure how to respond except that I cannot agree with you that foreign investment is inherently bad. My proposition is that it is intrinsically good. And certainly I believe the idea of debating how to share wealth and how we spread that wealth to the community before that wealth has been created seems to be a very redundant issue and I don't think we are serving the people that we want to help by debating those particular nuances.

(Brian Sheehan from Australia): I am one of the few people from a tertiary Institution in Australia in this Conference and I think that is a great pity that people in business and management education in Australia didn't attend in the numbers that I would have certainly have hoped. I would like to refer to the quotation that Cardinal Sin used in his address. "The primary form of human wealth lies in the human mind." I am sure he would agree with others that the human mind needs to be developed, educated and trained. One of the things that worries me about tertiary education, again perhaps particularly tertiary business and management education in Australia, and indeed I think in other areas as well, is you seem to often have education over here and business and management over there with perhaps a few lines in and out, but not with the integration that I think would be desirable. I personally believe that Australia has a lot to offer in terms of assisting its Asian neighbours in terms of management training and development. But in cooperation with Australian and local businesses in the countries concerned. I would be interested in Cardinal Sin's comments and those of the other panel members.

Cardinal Sin: Well, after hearing so many comments, I would say that we are here to be able to change the attitudes of business because this is a system of business which has been here since the very beginning and it seems that it did not work so well. So what I would hope for here is that we can devise ways and means to be able to solve this gap between business and the poor people. Of course, there are businessmen who are very very good and that is why you are here today, to share this kind of approach that you have. I would like to tell you what somebody told me the other day about the United Nations and Trade and Development. They have been meeting so many times and they say to me, they under no means or circumstances take any decision! I hope we do come to a decision in this Conference.

LUNCHTIME ADDRESS

TECHNOLOGY TRANSFER TO DEVELOPING COUNTRIES

The Honourable JOHN BUTTON

Minister for Industry, Technology & Commerce

Australia

After a hectic week grappling with the problems of keeping the budget balanced and trying to placate worried textile workers, it's a pleasure and a great source of stimulation to join this talented, dedicated and thoughtful gathering.

I would particularly like to extend on behalf of the Government a welcome to our distinguished overseas visitors. I have been asked to speak today about "Technology Transfer to Developing Countries."

I can only give you some Australian perspectives.

Some people say that Australia still has many of the characteristics of a developing country. We were once a colony. Our domestic market is still quite small. Even though incomes are reasonably high and we have managed, in the 200 years of European settlement, to build a pretty comprehensive and efficient infrastructure, we are still relatively dependent on exports of agricultural and mineral commodities, and we are still not importers of capital and technology.

To put this in another way, we sometimes laugh at ourselves and say we are one of the developing countries where you don't have to take the precaution of boiling the drinking water!

The Bureau of Industry Economics has just published an excellent report entitled "Importing Technology." I have a few spare copies with me for our visitors from overseas. Australian delegates can purchase it from government bookshops. That's called hospitality and cost recovery.

The report looks at the extent to which imports of technology have been a source of innovation for Australia's manufacturing industry.

It comes to the agreeable conclusion that imports of technology have been a major, though perhaps an overstated, source of innovation. I was pleased to read that the Bureau found that more government intervention was unlikely to be a cost effective way of improving manufacturing innovation through technology transfer. Problems such as export franchising, according to the Bureau, are better tackled by the private sector by more skilled negotiations with foreign suppliers.

Some of the case studies in the report might be of interest to delegates and to all of you.

At the very least, it provides us with a good definition of "Technology Transfer." "Technology transfer," says the Bureau, "embraces all imports of practical knowledge, whether in the form of machinery, equipment, materials, components, publications and software, or through movement of people, for local use in production and the provision of services.

Let me now return to the topic of this address.

The pace of economic and technological change, particularly in the Pacific basin, is extremely rapid. One of the characteristics of the present era seems to me to be that economies throughout this region, whether highly developed and sophisticated like Japan's, or much less so, are nearly all engaged in quite radical structural adjustment of one form or another.

The countries of the region can all be ranked conventionally in terms of per capita GNP. They can also all be ranked on a scale of technological development. I am interested in the rapidity with which they shift in these rankings, and the reasons why industries and technologies move down the first ladder in response to currency adjustments, themselves reflecting relative degrees of technological and business success in the higher ranking countries.

As this process has proceeded, we have seen the technological rise of Singapore Hongkong, Taiwan, the Republic of Korea and now perhaps Thailand and some other regional economies. At the same time, we are seeing quite remarkable and adroit economic and structural adjustment in Japan.

There are certainly lessons in all this for Australia.

Why I mention it is because I think, with due respect to the organisers of this conference, the way my topic has been phrased is just a little bit old fashioned.

Certainly, we need to be concerned with the improvement of the technological and economic circumstances of developing countries. But we need to see that problem in the broader context of technological and structural adjustment across the whole spectrum of regional economies, including, of course, the economy of Australia.

However we choose to look at my topic, it is obviously a very important one. Firstly, as I've already pointed out, we all are interested in the problems and the rewards of technology transfer, and we probably all have experience that we could profitably share.

Secondly, technology is a key factor in building competitive enterprises, in many industries, particularly in the information and computing sectors, in scientific and medical equipment and in modern manufacturing.

Australia exchanges technologies with developing countries in many ways.

We do so firstly by being involved in international business.

Unfortunately, our commercial involvement in the region has not been as intimate as it should have been. That is changing. But it is still the case that until June 1987, less than 13 percent of our total offshore investment was in Asian countries.

Japan (5.6 percent) and Hongkong (3.5 percent) were the major recipients. Similarly or conversely, Asian investment in Australia represented less than 20 percent of the total.

One of the reasons why we have not been more closely involved is certainly the cultural diversity of our region, with which Australians have been slow to come to terms.

International business includes not just trade and investment but also other forms of industrial collaboration, much of which takes place on a commercial basis.

I have been trying to promote such collaboration. Recently, we signed a Memorandum of Understanding on Concessional Finance for Development Projects

with China, the first government-to-government arrangement of its type concluded by us. Projects to be supported by this agreement cover agriculture, transport, energy, telecommunications and steel and non-ferrous metals.

The Overseas Investment Insurance Program within my portfolio also supports technology transfer. This is designed to foster partnership between Australian interests and indigenous investors. Concessions apply when the insured investment is shown to be a joint venture with adequate local participation.

The Australian Trade Commission, or AUSTRADE, now within my portfolio, has also developed a strategy for the export of education services which should contribute significantly towards the transfer of technology and skills into the region.

In 1987, about 9000 foreign students studied in Australia on a full-fee basis. The main areas of study were in Commerce, Economics, Administration and Science.

These measures and others reflect the interest shown by our government in technology development, technology transfer and free trade in this area.

Concerning free trade, I should mention the interests we share with many of our Asian neighbours in trying to counter the protectionist proclivities of many developed countries.

It is pleasing to see the extent of cooperation between us on issues of common concern in the Uruguay Round and the way in which the Cairns group has focused the attention of the world on the concerns of efficient agricultural traders in this and other regions.

Before I conclude, visitors may be interested in some of the ways which was the Australian government attempts to facilitate Australian access to foreign technology.

One example is our offsets program which is designed to allow Australian firms to benefit from technology transfers from foreign suppliers to the Federal and State Governments. This program promotes joint research, foreign investment and joint production.

Similarly, our taxation concession for research and development helps provide an environment which attracts foreign firms to undertake research and development in Australia.

To summarise, technology transfer is an issue for all managers and other delegates to this Conference. Australia has a contribution to make and shares some of the problems and perspectives of developing countries.

Technologies are transferred in the normal course of international business and other exchanges, much more rapidly in recent years as massive restructuring takes place throughout the region represented by the delegates to this Conference.

That process, managed well by business and governments concerned with the deeper issues of human progress, contributes to the welfare of peoples and to goodwill and understanding between nations.

I wish this Fourth Asian Business Congress for Human Development every success in its deliberations.

SECOND OPEN FORUM

Chaired by Mr. JOHN RALPH, AO

Mr John Ralph: Senator Button has agreed to answer some questions on the topic he has just covered or on anything else that falls within his area of responsibility.

Question: *re vital interest in tariffs.*

Sen. Button: I think in the last four years we have shifted the debate away from some of the more emotive issues in terms of the dire predictions alleged of proreductions and protections. However I have seen lately in situations on television at least, where people are very apprehensive about the consequences of change. These are factors which of course have to be taken into account because often the burden has to be borne by those who are least able to afford it, if the consequences which are predicted in fact take place. But there is always more anxiety, there are more threat experts as the Americans used to call them, when any process of change is going on than there are people who are prepared to advocate and support change. And we are in that situation at the moment. I must say that in terms of the manufacturing sector in Australia we've had a situation where in the last three years manufacturing employment for the first time in some twenty years has actually increased quite significantly. And, all I can say is if you are going to make tariff changes that's not a bad statistic upon which to underpin them.

Question: *re immigration program.*

Sen. Button: If you are suggesting it is possible to buy your way into this country the answer is yes. But I must say that the conditions of entry to Australia by non-indigenous people have always been abnormal from two hundred years ago. The first people who came here did not come under what I would describe as normal conditions. The announcements that you have seen referred to in the newspapers is what we call the Business Migration Program whereby entrepreneurs who are prepared to bring a certain amount of capital with them to establish a business in Australia are permitted to do so subject to normal things like health and so on being satisfactory. Insofar as the migration program generally is concerned, it is likely that the interest will shift more towards the technical skills and so on in terms of those most favoured for selection. Given that, we will undoubtedly have a limitation in terms of total numbers every year. I don't think the government has made any decision on that at the moment but that's the suggested emphasis of change. To make the point about immigration generally, I think that per capita, this country has for example been the highest recipient of refugees of any country in the OECD in the last ten years or so. Most of those migrants have been absorbed I think, remarkably well into this community. I think this is something that Australians don't give themselves sufficient credit for. We're not entitled to claim credit for many things but I think that is one of the success stories where the country is concerned.

Question: *re overseas aid.*

Sen. Button: First of all let me say here the main economic statement will not be characterised by generosity - with respect to overseas countries or people living in Australia. But I don't think in any event that that is the appropriate vehicle for considering this issue of percentage of GNP that we devote to overseas aid. The budget later in the year is the appropriate vehicle for that. I'm sure your basic point is correct. We have cut back on overseas aid. Yet relatively speaking, our contribution is still quite generous in OECD terms.

PLENARY SESSION

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES

*Reflections on the People Element from the
Experience of Both Partners in Successful Business Ventures
- Challenges, Problems and Opportunities*

Introduction by **Mr. BOB WHITE, AO**, Director, Westpac Banking Corporation

The Congress Council has requested the Australian Organising Committee to organise a segment in this Congress to address the experiences in or of business ventures across the borders and particularly of course in the Asian Region. The concepts to be examined will include a number of aspects:

1. Communications. As you know this is always at the heart of doing business in another country. It involves the technical facilities, the problems associated with cultural and ethnic differences.
2. The problems and solutions relating to different personal perspectives and contact and even contractual war. I once heard a very good description of a long-term contract by a senior Japanese businessman. He likened it to a small child. He said it needs love, affection and attention in its infancy. And when it becomes a teenager of course the circumstances change. And when it becomes an adult there is another change. The impact of these changes need to be recognised by the parties to the contract. This is just one example and I feel sure that my friend John Ralph, in his role as a miner and an exporter will acknowledge that unless there are benefits to both parties in a contract, no matter what may be written, then the relationship will ultimately fail to the detriment of both parties.
3. An analysis of different systems of award and the propriety of fair payment for risk and effort. His Eminence the Cardinal told us this morning of the obligations of business, not only in the development of human skills but in ensuring that those skills are amply rewarded.
4. A discussion of efforts by business partners to understand, to interpret and to advise on government policies for the development of business ventures.
5. An analysis of efforts to create a shared understanding of different financial accounting and auditing practices in diverse economies and cultures.
6. A review of practices relating to the selection, recruitment and employment of workers and management.
7. Human resource development programs.

8. Cultural differences and their impact on marketing programs. There will be three segments in this part of the Congress with two speakers in each segment, one speaker from Asia and one speaker from Australia. The industry groupings we have selected are:

- a. Finance and Banking
- b. Footwear and textiles
- c. Food and milk products

PLENARY SESSION, SEGMENT ONE - FIRST SPEECH

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES IN BANKING AND FINANCE

Mr. WILL BAILEY, *Group Managing Director and
Chief Executive Officer, ANZ Banking Group Ltd, Melbourne*

It would be very easy for me as a banker to talk with some depth about banking problems that are facing this particular area but with an open forum I've no doubt that those present wanting to raise those issues will do so. I thought I would try and talk about the human face of banking in this particular region.

The human face is common to all people of all races. Yet each person, no matter what his creed and race has an individual face. By our face we are known just as we recognise other people by their faces. The human face records our life's story, it records our hopes and our aspirations. And it gives away our fears. In short, nothing in the world says more about us personally than our face. Banks of course are not human beings so they can't literally have a human face like yours or mine. Yet banks, like other institutions and enterprises do have a public image. Our group devotes a considerable amount of time and money and the talents of many capable people to creating and maintaining a face which is acceptable to our many publics in the countries in which we are represented. Our competitors, whose headquarters may lie outside the Asian region, are equally concerned with their image or their face. These are not simply public relations exercises or the application of manipulative techniques by advertisers or by our own marketers. Why? Simply, because behind the organisation sustaining the structure of the enterprise itself are many, many human beings. Remove them and the enterprise ceases to exist. They are the real face, the human face of an organisation. And banking in this regard is no different from the organisations to which you belong, be they business, be they charitable, be they community, be they government. Each of us belongs to an organisation, some merely a family, or an economic identity which controls some finite resources. That organisation may seem at times to act independently of the people. Yet in the last analysis it really only behaves in the way you decide. It is only the sum of the actions of the people that make it up. The way people act is the way the organisation itself ultimately acts. This is the case with an organisation's history, history being the accumulation of past deeds of individuals. The key to a successful organisation is successful people particularly the quality of individuals and the quality of their relationships with each other.

I want to focus now on the quality of the relationships between people and to give you an insight of its importance in banking in the Asian region. I believe there are parallels for industries and so too for government. Let me say now that I see development as the major goal of economic activity in this region. And this applies even to the most successful countries like Japan. The Asian region is part of the international economy. We all know this. Indeed, even some Australians who have been reluctant

to grasp this fact have suddenly woke up to it now. Much has been said about the dynamic growth of our region and many have argued that the engines of the world's economy in the future will centre on this particular part of the world. And even if they're right it does not allow us to rest. In fact it must urge us all to redouble our efforts. The world simply doesn't sleep. The level of economic output across some 150 countries continues to rise. None of us can afford to pause. We just cannot sit back and enjoy our current levels of achievement. Because if we stop, someone else will take up the opportunity. But it takes a lot more effort to stay in the field or lead it. This is equally true for both developed and newly industrialised countries. In all of this people are the key. The way we manage the human face of development will be the ultimate test. In the banking experience of my enterprise, where we operate in forty odd countries and particularly in the Asian region, human development parallels the development of economic growth. I can assure you that in every country the calibre of our people is the major factor to our success. In this program, we have on the agenda today and tomorrow challenges problems and opportunities.

Challenges

The challenges for banking in the region is to build a network that works. What is a network? Well, there are many types. I suppose the oldest and most basic network is face to face dialogue which is really sharing information with another person. The grapevine, the term we use to describe a long chain of people passing and receiving information, is another. In a higher level, the march of information technology has made it possible to have huge global networks for passing and receiving all manner of information. This network is still a network, even though it is far more highly advanced. Bankers are particularly good at moving information from one place to another. After all, capital is a specialised form of information and moving it prudently is a banker's skill. Capital flowing throughout the international economy is huge – some 25 times greater than the total value of the world's trade of goods and services.

Foreign exchange transactions are information flows too and the value of these flows far exceed the value of worldwide trade of goods and services.

The principles behind these large, complex information networks are no different from those in face to face relationships or in grapevine-type networks. They are all dependent on communications.

In banking, communications are an important factor. Networks provide the channels to add value by managing these and other information flows. The network may be made up of many computers, telephones or of telex or of fax. It could be based on mail or on personal relationships. In fact our networks are based on all of these plus many more. Each serves to add value both directly or indirectly to our customers and they do this by letting us communicate. Let me give you an example. We have corporate relationships with many large Korean groups. We also have the largest foreign bank in the Indian sub-continent. Both countries and the enterprises with whom we have relationships benefit from our network because it allows them to communicate and to move information which has a value to all parties. In one case, the Hyundai Corporation of Korea was able to successfully bid to an international consortium for a large construction in Bombay, India. At the same time, we were actively using the network in our role as a banker to Mitsui in Japan on Stage 1 of the same port contract in Bombay.

This is a case where there were different countries and people networking for a common benefit. There were Koreans, Japanese, Australians. All were networking, understanding one another and working for a common purpose.

There are many other examples. But I think that one illustrates my point well enough. Networks allow us to communicate and to add value by linking countries, governments and enterprises together. For us bankers, that's a great challenge. But remember, the real communications of the banking networks that cross national borders are communications between people - the human face making contact with another human face. The technologies in between are important. Of course they are. But they must be managed. They must always serve as communications. Our challenge is to build systems that support people, that allow them to be productive and to communicate with others. These people of course are customers. They're our staff. They're our intermediaries. They are governments, regulators, suppliers, and many, many others. They have different languages, religions, countries and cultures. Yet they are able to produce value and raise productivity in a region by means of communication through international networks. That is a major challenge for bankers and I believe for the whole region. From the challenge of communications let me now turn to problems or at least a representative problem.

Problems

In my opinion unless there are proposed solutions there is little point to adding to an already long list of problems. The point is to set some priority for action. One priority is to broaden staff and customer awareness of the opportunities in a region. In an international market, awareness of the needs of clients in other countries and the capacity of the organisation to meet them is vital. How else can Korean or Japanese enterprises begin to deal with an Indian project? How would one party become aware of the other? When it comes to staff the first priority is education. The greater the changes we experience and expect to face in the future the more important education of the people becomes. Education as opposed to training I should say, develops the whole sense of purpose. It goes beyond training because the focus is upon developing maturity, responsibility, integrity and leadership qualities. I include travel in education when it serves to broaden a person's awareness and to prepare him for greater responsibility. Indeed, you could say the people in this conference right now are undergoing education. In the example of the Indian project I gave before, the way people were placed tells the story. A generation ago, our offices in India would have been invariably British, mainly Scottish. Today, only seven of the 250 people occupying senior posts in our Indian operation are ex-patriate staff. And they come from all parts of the world. They come from Japan, France, Sri Lanka, Spain, Australia and, of course Scotland. Yet an Indian ex-patriate runs our Taiwan office. The region is becoming far more cosmopolitan and the calibre of our people is raised through this policy.

One problem we face has been the way attitude of governments to ex-patriate staff, even those ex-patriate staff placed where they are to improve their knowledge of their education of a region. We want our head office people to get first-hand line management experience in the region, to bring techniques from the office to outlying areas of our operation. Business understands this need of moving people to expand the knowledge of the total enterprise. Unfortunately, some governments have yet to

appreciate the value of such a process to their nation as well as to an international enterprise.

The problem of ex-patriates, however, opens an opportunity to develop the region. As people live and work in positions away from their homes they begin to make deeper personal contacts with people in those countries. The young Australian banker might have close friends in Singapore, Hongkong and Thailand. He or she would perhaps become an insider of a different culture. I use the term 'insider' in the strategist sense as someone who is no longer seen by his host as a foreigner, not the practice of course, of insider trading. Let me put it in another way. As the staff become members of the communities of different countries in this region they become known personally. People of a region see each other face to face. Here is the fundamental relationship of banking and probably of most other businesses – personal contact. It can be sustained by technology and airlines, but only after the first contact is made on the personal level or it doesn't work. Literally, the human face must be seen and heard.

From another aspect we can reflect on the many opportunities that friendship and understanding allow, as in organised associations, and the value which accrues from university days together. I believe the opportunity to improve the quality of personal contacts is great. This conference affords such an opportunity to improve and widen contacts. The establishment of contacts allows for the development of more lasting links and networks in the region. As a slogan puts it, "Think global. Act local." It means putting people first for it is in people that all our values and aspirations are found. That is the challenge I share with you today.

PLENARY SESSION, SEGMENT ONE - SECOND SPEECH

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES IN BANKING AND FINANCE

Japan and its Internationalisation

Mr. TOMOHIRO ISHIGURO, *General Manager*
Bank of Tokyo, Melbourne

Today, I wish to talk about my own observations of what the word "internationalisation" means to the Japanese.

Itself a developing country only 100 odd years ago, Japan has achieved its modernisation and industrialisation. Especially in the last 20 to 30 years, Japanese companies - trading houses, banks and other financing institutions and manufacturers - as well as government and government agencies have established their offices and operations all over the world. Of course, you are well aware of the existence of Japanese firms and business persons overseas. Also, individuals are represented as tourists. These days, Japanese are virtually everywhere. Is this phenomenon proof that the Japanese have been truly internationalised?

In the 2,000 years of Japanese history, the real effort to modernise Japan started only 120 years ago after maintaining 300 years of seclusion by the Tokugawa Shogunate. With the coming of the Meiji Restoration in 1868, Japan started to import virtually everything for its modernisation - politics, economic and monetary systems, education and medicine as well as industrial technology and engineering, all from the West. Before the Tokugawa Shogunate, we did have contacts with and were stimulated by overseas people such as the Portuguese, Chinese and Koreans, but only on a limited scale. Therefore, for the Japanese, the word "internationalisation" has been synonymous with "Westernisation" or to catch up with "Western civilisation."

We Japanese formed our own beliefs and philosophy from traditions handed down by our ancestors over thousands of years, but have been successful in integrating Western concepts, science and technology into our traditional social structure. The process was by no means easy. It was time consuming and not without much pain and sacrifice. Thus, even though Japan is a Westernised country in Asia in many ways, particularly after World War II, domestically, we still have many customs and practices which are quite unique.

As I have mentioned previously, our internationalisation originally started with the aspiration to catch up with the Western civilisation in the late 1860's, not only in the area of economic development but in every respect. But after Japan waged a desperate and lonely war against over 40-odd allied countries and everything turned to ashes, the government and the private sector jointly concentrated all their efforts in achieving the goal of economic prosperity. This materialistic goal was the primary consensus of the

Japanese as a whole until recent years, and, externally, internationalisation was pursued with this objective in mind. I believe that this is the reason why we are often called "Japan Inc.". "Japan Inc.'s" performance was successful and admired. But as you might agree with me, "Japan Inc." was in many ways a materialistic and profit-oriented body. It often lacked the human element. When we talk about "internationalisation", I believe, mutual understanding between nations or among the peoples of the world is implied as an essential factor.

One could say that Japan was in every sense an agricultural economy just until after World War II. Primary industry accounted for approximately 25 percent of the GNP and employed close to 50 percent of the labour force. With World War II, the Japanese lost everything. We needed to rebuild our nation from scratch. The government introduced the "priority production system" as an emergency measure. With the scarcity of resources for industries after the war government and the private sector mobilised every resource (raw materials, energy, money, import quotas etc.) to the core industries of steel and coal production to revive other base industries such as power generation, the national railway system, gas, cement etc., to restore production. As a result, coupled with other measures and various reforms including land, agriculture, labour and education, Japanese industries were prepared in time for the subsequent regional wars in Korea (1950-53) and later in Vietnam that greatly assisted the take-off of the Japanese economy.

Now, if I may briefly touch upon the banking environment in Japan after the war. Domestically, of course, the post-war period faced an acute shortage of capital. Money was concentrated in restoring industries. Long term capital funds were primarily provided by the Development Bank of Japan (100 percent government agency) and the long term credit banks and trust banks. Short term funds were, on the other hand, provided to medium and large scale corporations primarily by the city banks and the regional banks. At that time, there was a need to establish banks for various purposes. Aside from the banks mentioned before, we still have today such banks as mutual savings (sogo) banks, credit associations and credit cooperatives, totalling 1,000 and specialising in servicing small and medium sized firms and individual members. There is also the Norin Chukin Bank, which is a powerful financial force supporting agriculture, forestry and fishery cooperatives, and the Shoko Chukin Bank, established by the government to service the financial requirements of small businesses.

All foreign exchange was concentrated with the Central Bank under a very strict and complicated Foreign Exchange and Foreign Trade Law which was a nightmare for banks in checking the legality of transactions. To smooth the way for international trade, the Bank of Tokyo, Ltd. was transformed to a specialised foreign exchange bank from an ordinary commercial city bank, under the Foreign Exchange Banking Law in 1954. At the same time, a limited number of the branch offices of the other 12 city banks were given licenses to deal in foreign exchange. But in many cases, corporations and individuals or even the government institutions relied on the Bank of Tokyo's expertise in dealing with foreign exchange in the market, remittance and trade finance settlements with foreign banks and interpretation of the law and processing applications for the Central Bank's approval. The work load was very heavy and overtime exceeding 20 to 30 hours per week on top of the normal 48 hour week, was not uncommon under the severe working conditions. I understand that many of my colleagues collapsed due to fatigue and malnutrition. The most common disease at that time was tuberculosis. But

these kind of working conditions were common to other banks and companies too. In developing and expanding international trade during the early post-war period, the trading houses, the Export-Import Bank of Japan and the Bank of Tokyo played important roles. However, this was only possible through the increased productivity of domestic manufacturing and service industries.

The Japanese companies in general lacked sufficient capital. They relied heavily on the banks for business expansions and daily operations. Corporate treasurers had to "knock on the doors" of banks almost every day to secure funds which were scarce. This is the reason why Japanese companies are still generally highly geared.

As Japanese manufacturers began increasing their overseas business directly, (not through trading houses), internationalisation of the Japanese banks started to take shape in the late 1960's and early 1970's through the establishment of branch and representative offices overseas. The overseas presence of Japanese banks increased more dramatically in the 1980's. On the other hand, with the gradual opening up of the financial industry in Japan, at the end of 1987, 81 foreign banks were operating 117 branches and considerably more had representative offices.

More recently, with the high domestic savings rate and a huge current account surplus together with the consequent appreciation of the Yen, the Japanese are recycling huge quantities of capital back into the international market in the form of securities investment, property investment and shifting part of the manufacturing units overseas. The Japanese government has announced a fund recycling plan which intends to siphon part of the surplus money back into developing countries in the form of a united loan in a joint effort with the private sector. Expected magnitude of the programme is US\$20 billion in three years. This, of course, is different from the usual official development assistance programme. I certainly expect the major portion of it to be used for development purposes in the Asia Pacific region.

Japan's commitment to global peace and prosperity is also evident in its effort to promote free trade and to cooperate with developing countries through its active contribution in various major international agencies such as the United Nations, OECD, GATT, IMF/World Bank, ADB etc. However, I believe Japan's contribution to these areas has not impressed the world as much as in the area of economic development.

Internally, Japan developed its own concepts and social and economic structure. You would find in this modern industrialised country a lot of customs and practices you would have difficulty in understanding or coping with. These aspects were perhaps often pointed out by foreigners but were never seriously analysed because at that time Japan was less prominent or influential, and very few people paid attention to these problems. The Japanese for their part, did not make an effort to make foreigners understand them by elaborating upon their concepts, practices and customs which may be complicated and quite different from those of the West. This is partly because of the language barrier and partly because the Japanese were too busy pursuing their materialistic goal. I have seen so many instances of mutual misunderstanding or indigestion of discussions between Japanese and foreigners due to language problems but more so because of the gaps in culture and perception.

As the Japanese economy becomes more prominent and influential internationally and tends to be more open, Japan as a whole is prone to be exposed to the eyes of other nations in various ways. For instance, in shifting manufacturing bases

overseas, we may now have to consider exporting Japanese management concepts or philosophy. We are now asked to buy more, and complicated distribution systems and price structures are queried. Various pressures from overseas have become serious threats to the Japanese as they may affect the fundamentals of our social structure, conventional wisdom, value concepts etc. The Japanese have started to realise that dialogue to exchange opinions and ideas is essential.

Through the process of exchanging views with other nations, the Japanese public in general also has become more conscious of their private lives, which, until now remain secondary to their business lives. The Japanese have regarded their country as the place of production and were slow to improve arrangements for living. Value judgments have become diversified especially in urban dwellers' assessment of quality of life. For instance, the price of food and housing is outrageously high, and social infrastructure is inadequate. In this respect, although per capita GNP, converted to US dollars by market exchange rate, now surpasses that of the United States, nobody in Japan feels that we are better off than the Americans. People have begun using more than one yardstick for value judgments.

Japan has been exposed to the spotlight in the international scene suddenly, virtually for the first time in the last forty years. Japan, in a way, is currently perplexed, having achieved the goal of economic development and now facing the new situation. On the other hand, perhaps, Western people are also perplexed by the emergence of an industrialised nation which often has different concepts or value judgments. In these circumstances, exchange of opinions and efforts to understand each other becomes even more essential. It will take time and effort and, perhaps, at times, pain. It is encouraging to learn that more Japanese people nowadays visit and study overseas at a younger age.

Last, but not least, Japan, as I repeatedly mentioned, has paid much of its attention to the West. The situation may have been the same for the other countries in the Asian region. I sincerely hope that, through the implementation of various kinds of assistance programmes, the human aspect of mutual understanding will also be developed. I believe, for the prosperity of the Asia Pacific region, we need to further develop stronger horizontal ties in this part of the world. I also believe that Japan will change its interpretation of internationalisation from "achieving the materialistic goal of the Japan Inc." to something more of a mutual nature based on greater understanding.

THIRD OPEN FORUM

Chaired by Mr. BOB WHITE, AO

Question from Rev. Ian Dillon: *I was interested this morning where it was said future history would be kind to us. I am reminded of a quotation of Pope John Paul which said history is the progress of the many and the poverty of the most. This brings me to the first speaker's paper where, talking of human development, he mentioned communication and how the banking system really does develop humanity, especially those involved in the banking system and not just in one firm but all the ancillary organisations. History doesn't impress me too much. Take from 1980 to 1986. In 1980 the Third World debt was something like \$453 billion. By 1986 the Third World had paid of the debt about \$658 billion including interest plus capital. That's a 53% increase over the original debt that had been paid back. By 1986 the Third World debt had almost doubled. History does not seem to be in our favor. I ask the bankers for suggestions.*

Mr. Will Bailey: I think the subject is pretty much to the fore of our minds. It is an exceedingly difficult problem. And I think if you go back in history you have to go back before the last six years. You have to go back to when it all started. And when it all started, the intermediaries were recycling funds which had become very large in the hands of the Middle Eastern countries where the petro dollar started the whole process working and passed them onto people in other countries to encourage development. The money was all right. But the products of the money were not considered in the wisest possible terms. Where the money was used to encourage development in developing countries to produce goods, there was not the necessary follow-up to enable free trade to flow which would thereby justify expenditure and enable the world to progress. And I suppose that's one of the great problems. While money was poured into developing countries for productive purposes, the output of production had not been accepted by the rest of the world. So I don't think it's totally a banking problem. It's a global problem and I think it involves more than just banks. Hand in glove with that, there are some countries in the world which haven't got one hope in heaven of paying back what they owe. And I think we need to start addressing the issues of those countries ahead of the others. There are other countries who remain indecisive about the exploitation within their own borders where there is more wealth being held by more people than in other parts of the world. That's an internal problem that somehow has to be addressed. There are nations who ought to be very big economic powers. They've got it all. They've got valuable human resources. They've got productive resources and they've got natural wealth. Now to address those countries on the hypothesis that we ought not to ask them to pay their debts would bring down the fabric of international trade, commerce and finance. It's a massive problem. I think we have to start addressing it in those countries that have no hope. I could mention some in sub-Saharan Africa which frankly ought to be forgiven for the bulk of their debt. There are others who ought to have the world community make them face up to the fact that they've got a responsibility to service things that they have got the inherent ability to service. So when we talk about LDC debt I think we need to start breaking it up. It's not one thing. It's a combination of many. I'm very sympathetic to interest capping, forgiveness of part

of the debt and incentives to have people address the issue, because the issue is not going away. And if it isn't addressed soon, it could have a negative impact and could even lead to the collapse of world finance. There's an interdependency in this that goes far beyond the banks, of a kind that has no exposure to LDC. There's an interdependency in the banking system which flows on to the interdependency of governments. And I think it's an international issue of the highest order.

As a banker I say, yes, there's a lot more we could be doing rather than talking about it.

Mr. Bob White: We do tend to overlook the underlying reasons for the Third World debt problem. And it all goes back to December 1973 when the world price of oil quadrupled. That was called the first oil shock and we had a series of oil shocks in the latter part of the 70's and the early part of the 80's. At that time, huge surpluses accrued to the oil producing countries and the oil consuming countries incurred huge deficits. The oil producers were so rich that they decided not to take any risks but to put their funds on short deposits with the international banks. The international banks were faced with a dilemma because of the tremendous demand for loan funds or recycling, as Mr. Bailey said, of those surpluses from the oil consumers. On the one hand they had short-term deposits from the oil producers, and on the other a big demand for long term loans and borrowing funds from the oil consumers. Had they not recycled we might well have had a crisis of greater proportions than we had in the seventies. But the basic problem, I don't think, has disappeared because today we have the same level of imbalance in the world economy, almost as we had in the middle seventies. This is because of the huge surpluses generated by Japan and Germany and the huge deficits generated by countries like Australia but more particularly by the United States. I suppose if the United States were not such a gigantic economy it could well be the Third World debtor of the future and may yet well be unless we find some way of solving this problem of imbalances. We've seen massive exchange rate adjustments. When I went to Tokyo in September 1985 to open a branch of my bank, the exchange rate for the Japanese yen against the Australian dollar was 240. Today it's a little over 90. Now that's massive adjustment. But Japan and I think Taiwan are still in surplus with the rest of the world. The adjustment with the US dollar is in similar proportions. So we've not yet solved the problem.

It is very easy for us to blame the governments and blame the banks. I heard a very prominent central banker at a conference last year say it might be easier if the central banks could meet without the politicians. I don't pretend to know what the solution is but the problem is still there.

Mr. Tomohiro Ishiguro: As Mr. Bailey and Mr. White said the problem's too huge. But even if we look at what's happening now in the international market it's being adjusted in many ways. For instance, Japanese Life Insurance Companies investing on papers, securities in US, Australia, Canada face appreciation . . . and through this mechanism Insurance Companies are facing huge exchange loss. Now this is one form I think of recycling money to other places. And one other instance is that American banks are building provisions to write off Third World debt. It has just started but I think it will eventually be done with other Japanese banks, perhaps in smaller ways. But this is another way of recycling funds. So to my mind, both parties, lenders and borrowers in a way, are sacrificing to a certain extent. For the banks, if we have to write off some

of the debt then we have to make profit somewhere else. So it's the same enormous deficit as the developing countries who are trying to meet the service debt and are trying to develop their economy.

Honourable Vicente Jayme: Coming from one of the Asian countries with perhaps one of the more serious external debt problems, I would like to bring in a new perspective from a developing country's point of view.

Perhaps it's all very well for a lot of the industrial creditors to speak of the broader perspectives of the recycling of funds and the need for balances and all that. But for developing countries — in South America, in Africa and of course in the Philippines — the issues are far sharper than that and have more, in a way, serious implications. In the case of the Philippines, although our President has indicated we will honour all our debts, the problem is there is a net outflow of funds we service which is in the neighbourhood of about \$3 billion a year in interest payment and principal. And the net inflow by borrowings, bilaterals and official aid would probably be about \$1.5 billion. So there's a net outflow of about \$1.5 billion every year unless we're able to come up with some scheme that: will reduce our stock of debts, will limit interest payments, will allow for a greater inflow of funds

The implications are quite serious. Unless we meet our growth objectives then the level of poverty remains high, the level of unemployment remains high. And in the final analysis, our ability to service our debts will be put in question. So for many developing countries this is the question. How do we search for ways of addressing the problem. Of course we have witnessed some new innovative schemes and the willingness to some limited extent of some governments to come in. But it would appear up till now there is a great reluctance to take hold of the problem in its entirety. And the one, for example, suggestion by the Chairman of American Express for a noble kind of approach was immediately shut down by Secretary Baker as not being feasible or practical even before it had been allowed to be debated upon in financial circles. I think the dilemma that will face many developing countries is precisely whether or not within the next decade we are able to ensure that the reverse outflow of funds will in fact be limited and will allow sufficient funding for development. And the whole question of whether the financial system is able to sustain the kind of growth developing countries will need to feed its population is in serious question. While there are inroads and some limited solutions being found, as a whole, many of us in developing countries feel that these will not solve the problem. The burden has become too heavy and we will not be able to survive this or many will not be able to. In the case of the Philippines our growth is beginning to take place. There are structural adjustment programs that are being undertaken and fortunately these coincide with many of the prescriptions of both IMF, World Bank, Secretary Baker and others. And while we see in ourselves the capability of moving ahead in line with those programs there are other countries in South America and Africa which perhaps will continue to face the future in a very bleak manner.

Mr. Bob White: I think you have summed up very accurately the challenge which lies before us and just to remind you, Australia is also a very heavily indebted country. At the moment approximately 20 percent of our export income is being put aside to pay the interest on our overseas debt.

Richard Bush from the Department of Foreign Affairs and Trade: *I would like to hear Mr. Ishiguro's comments on the progress being made in Japan with respect to*

accepting more imports, Japan being one of the major surplus countries in the world. If that surplus can be reduced in some way and at a faster rate then opportunities will emerge for indebted countries and help solve their debt payment problems.

Mr. Tomohiro Ishiguro: I think this problem can be solved by instituting the appropriate economic mechanism. But at the moment perhaps it depends heavily on how the United States would perform. Our surplus to the United States has been decreasing and it's obvious. But the problem is that this reduction of surplus is being replaced by other countries. So the problem of the United States is still there and as long as the yen stays as a strong currency and of course as our people and industry make the effort to keep up the profit and do our best, perhaps the situation will become even worse. But I believe the yen can't appreciate forever and to my mind I think it is quite over appreciated. If you have 10,000 yen in Japan and \$100 here you can buy a lot more here. In the 1990's, probably, if Japan will open up its imports for agricultural products, then agriculture will become another import to Japan. Now with these vulnerability factors I think sooner or later this surplus will be adjusted.

PLENARY SESSION, SEGMENT TWO - FIRST SPEECH

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES IN FOOTWEAR AND TEXTILES

MR. BARRY A. COUNSEL

*Chairman and Managing Director, Florsheim Australia Ltd.,
Director Operating Board, Florsheim Shoe Company, Chicago*

In 1985, the senior business executive group of the inter-church trade and industry mission presented views to the leaders of Australian churches on a document published jointly by a number of those churches entitled "Changing Australia." We as business leaders felt that we should provide other arguments relating to the nature of trends in Australian Society and balance the arguments in the document by analysing the major contributions of business to our growth and prosperity.

Subsequently, a book "Creating Common Wealth" was published by one of our members, Ian Hore-Lacey. In a review, senator Fred Chaney, leader of the opposition in the senate and shadow Minister for Industry, Technology and Commerce said the book explains why there must be a prior commitment to understanding the nature of wealth. Failure to understand it can leave us all the poorer by interfering with the processes of wealth creation on which all charity, public and private depends. It will be useful to those ordinary Christians who are increasingly puzzled by the hostility shown towards the traditional capitalist ethic.

The book's arguments endeavour to indicate approaches responsible Christian business leaders could develop to help the economically deprived and needy members of our community. One conclusion suggests that while few would disagree with the proposition that economic wealth must be created before it is distributed, the economic linkages and the basis of wealth creation itself are not well understood.

It is my belief that all sections of the community, men and women of every area of our nation, be they from business, government, church or society should endeavour to provide the opportunity for all to seek their goal which is ultimate fulfillment and satisfaction.

We, as business leaders can develop creative strategies to help in a positive way those who have difficulty in recognising and achieving their ultimate goals of peace and contentment. We must also realise that transnational organisations and corporations have a very special and vital role in this process, particularly in the developing nations where so many of the poor live.

In essence, I am pointing to the fundamental theme of this Congress. I strongly support the view that transnational business leaders have a social responsibility and in fact have many opportunities to exercise that responsibility, especially in relation to human resource development programs. These programs are an essential part of the task of new investments especially in developing nations, and they allow people who

gain employment as a consequence of profitable investment to achieve their ultimate goals of fulfillment and satisfaction by gaining recognition for their special and unique contribution to the corporation.

I would like now to turn to my experiences to demonstrate how some of these principles apply in the operation of the transnational corporation in which I am involved. The Florsheim Shoe Company based in Chicago manufactures, wholesales and retails quality men's and women's footwear in North America and the West Pacific basin countries, as well as draws supplies of footwear from South America and Europe. I will also refer to my personal involvement in aid programs in the Asian region.

In the early 70's, having identified the concept of the need for quality consumer goods to be made in the Asian region, I, together with another key executive, encouraged our international board to establish closer connections with industrialists who were already supplying us with limited quantities of the basic raw materials such as kid and buffalo leathers. We decided that our first responsibility was to encourage the production of raw materials to a standard that was acceptable for consumers in the West.

In 1974, we commenced training people living near the tanneries 100 miles west of Madras to make uppers. These were used to complete footwear in our North American and Australian factories by attaching the bottom parts of the shoe. This upper program, the first stage in the world shoe concept, led to the establishment of a joint venture with one of the key tanning firms, and a company called "Florind" was established to make a limited range of completed shoes.

The success of our new venture in India depended to a large extent upon our training programs, although, in the initial stages, we found these programs were not as effective as they could have been. As a result, the progress in obtaining the quality we required was not as we had planned.

Since that time, however, we have substantially increased our investment in human resource development programs at both the technical and managerial levels. I might add that in Australia we have used the resources of the shoe and allied trade research association in the United Kingdom which has the expertise in technical and managerial training in the shoe and leather industry. New training techniques ensure that faster progress is made in developing people's skills.

It is very interesting that Satra, as a matter of policy, does not make its services available to firms in developing nations and I with other Australian delegates opposed this, as a matter of justice, at an ILO conference in Geneva in 1985.

Since our involvement in the Indian program, we have employed 3000 people either in our joint venture or related companies and many others have found employment in component and service industries. In the 12 years in India, we have purchased over US \$400 million worth of products either as finished leather, uppers or completed footwear.

The shoes from these factories are now sold in North America, Australia and are now being introduced to Asian markets. The quality has been such that the product is accepted by customers even in the more sophisticated markets of the world.

Our involvement in developing countries has not been confined to India as we have manufacturing programs in Taiwan, South Korea and now we have commenced

operations in the People's Republic of China. I believe our success at this point in time has been a result of the following factors:

1. Our ability to negotiate carefully in the early stages in such a way that both parties have a clear picture of each other's aspirations.
2. Our training programs have been adapted to local cultures and have enabled us to produce quality products at a relatively early stage.
3. Tight quality control measures have also reduced impact of potential disruption to supply network.
4. Our efforts to break down communication barriers by encouraging regular personal visits have been supported by carefully written communications and more recently, by regular direct telephone conversation. This action ensures continued monitoring of each party's aspirations and objectives.
5. Company policies which protect our image in developing countries by ensuring that we are a better than average employer not only in terms of rates of pay but also in terms of conditions of employment. I think it is absolutely imperative that transnational corporations maintain a very high reputation in the employment area and for those who want a long term future, to aim to be outstanding corporate citizens in any country in which they operate.
6. We spent considerable effort in challenging some unnecessary bureaucratic controls and in influencing changes which facilitated joint venture negotiations. I believe governments, when establishing new industrial policies in order to attract foreign investment, should consult foreign industrialists on the downside. I believe we failed to see the necessity to assist in the development of a strong infrastructure for the industry in which we were involved. We took it for granted that an industry infrastructure would develop quickly without our close involvement. In hindsight, I consider that we should have spent time to encourage government and private organisations to assist in the development of investment programs which supported our activities in the region where we established factories.

Furthermore, a number of our management units failed to comprehend the long term commitment needed for successful off-shore manufacturing and sourcing programs. Some of our executives had negative feelings about Asian people, or more than likely they were unsure because of their inexperience and as a result, communication between some individuals was less than satisfactory. In one market also, we failed to spend sufficient time in discussing with government authorities the political and economic aspirations of their country.

As a result of these experiences, developments in new areas have concentrated on having executives visit those countries, particularly during the negotiations stage, who are best equipped to understand the culture and economic aspirations of the people we propose to work with.

In essence, transnationals should view return on investment over a longer period than is normally the case in Western countries. Too, leaders with a long term vision are essential if broad support throughout the company is to be obtained.

Furthermore, technological transfer programs in industries which are not highly automated require a great deal of additional executive effort particularly in relation to training and quality control programs as well as in other areas of management, particularly production planning - a process which ensures timely delivery of goods which is an area of weakness in developing nations.

I believe that political trade barriers are not the greatest constraint for developing nations, but rather their ability to develop infrastructure and managerial skills necessary to produce a consistent quality standard in accordance with predetermined delivery programs. The textile industry in its early stages of development in India is a notable example and it is only in recent years that the deliveries from that source have been consistent and reliable.

It is true that many developing nations have attempted to establish economic free trade zones with appropriate infrastructure and obviously this has helped relieve some of the problems. But there is no substitute for long term commitments by Western nations and the executives employed in them. Unfortunately, unless they have the vision, tenacity and dedication, many offshore programs in developing nations are placed in the "too hard basket," thus inhibiting the growth of third world countries.

On the other hand, many large corporations in the Western world which do not have substantial offshore investment programs are following the examples of transnational corporations like ours which have developed strategic plans to restructure their organisations by sourcing raw materials, partly and totally finished products from low labour cost countries, making their Western factories mere assembly plants with reduction in value added components.

I believe there will be a gradual significant reduction in protection levels in this country, particularly in the clothing and footwear sectors. And by developing partnerships with Asian companies, we can provide a great deal of knowhow with regard to wholesale marketing, designs, as well as managerial and technical knowhow which will ensure the production of quality products.

Unfortunately, there are too many manufacturers in a highly protected country like Australia with their heads in the sand, and not sufficiently committed to long term programs. They use, therefore, great political clout to sustain unrealistically high levels of protection to ensure their manufacturing operations remain in a protected environment as long as possible without facing the difficult but inevitable task of establishing more efficient operations in developing nations crying out for the opportunity to deliver to consumers what they want.

In essence, therefore, the thrust in our company is that with our self-imposed growth goals, we will inevitably move to become an Australian headquartered West Pacific Basin footwear company in the period ahead.

In conclusion, I did mention earlier that I would refer to one of the offshore aid programs I am involved in. I feel that one of the most outstanding forms of aid is to develop industries and transfer technology, thus buying back the goods for the Western markets. On the other hand, I believe that we should also use, as business leaders, our knowledge of training and quality control programs to become involved in aid projects which have self help as an underlying principle.

I, together with assistance from some of my executives, and a board representing people of goodwill in the state of Victoria in particular, have assisted the development

of an exciting and innovative Australian cattle project on the southernmost point of India. This farm not only uses high grade Australian cattle to produce milk. It has also become a centre for the training of underprivileged tribal groups and other people in cattle management coupled with rubber and copra and nutritional crops planting programs.

The dairy farm, which produces ten times the local milk production, is used as a centre for our activities and supplies its own milk bars with funds flowing back to the farms. With some assistance from the Indian government, villagers can obtain low interest loans to purchase Australian cross bred cattle, provided they are trained by us to handle and feed a cow which they can own.

In addition, the farm as part of its outreach work operates health clinics with doctors and provides training on health and hygiene. An interesting group we work with are the Kanikar tribals, forerunners of the Australian aborigines. They live in impoverished conditions in the hill country with high mortality rates. Our work enables them to develop crops which raise the level of nutrition. We are also currently experimenting on an exciting new development where we convert lucerne crops into a high protein component to be included in the local curry food with surplus being used as stock feed. We are using a new prototype machine.

I believe that as a matter of principle, broad involvement by executives of transnationals in areas of local need apart from the corporation's specific tasks is one way where we can positively fulfill our sense of social responsibility and at the same time help the people in a developing nation in a very real and positive way. Our training as executives can indicate to local people how to go forward under their own momentum and progress under local leadership and direction.

My concept for fulfillment and satisfaction for the people of the world is summed up in these words: He or she who dares to be adventurous and different will often seem to be unrealistic and unsupported. But if our vision is firmly set on giving our talents without reservation when they are needed and acceptable to others then we will all be better off, but more especially the Giver. For that great man, St. Francis of Assisi once said, 'It is in giving that we receive.' That is my wish for all - that we find and live this ultimate truth.

PLENARY SESSION, SEGMENT TWO - SECOND SPEECH

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES IN FOOTWEAR AND TEXTILES

KARAM BEDI

Representative of BATA, India Ltd.

The Basic Proposition

- A. Whether joint business ventures are relevant and useful in product/market development activities in developing nations is not the issue. The real issue is how they can remain useful without creating any negative side effects.
- B. In order to maximise their usefulness in market/product development, such ventures must become internalized rather than operate as foreign companies doing business in the country.

Process of Internalization

The process of internalization should include the following:

1. Bilateral attitude adjustment
2. Strategic planning of national needs and resources
3. Reciprocity of bilateral strengths
4. Long term bilateral commitments

Bilateral Attitude Adjustment

There are stereotyped misconceptions about each other which need to be corrected or put in proper perspective. This bilateral attitude adjustment is vital in laying the correct foundation between the participating companies and developing nations.

A. Some Common Stereotypes About Multinationals:

1. They are the neo-colonial instruments of the Western world.
2. They are counterproductive to developing nation states since they have no allegiance to any nation.
3. They act as external change agents imposing foreign values and practices.
4. They have no social conscience and business profit is the sole driving force behind their activities.

B. Some Common Stereotypes About the Developing Nations.

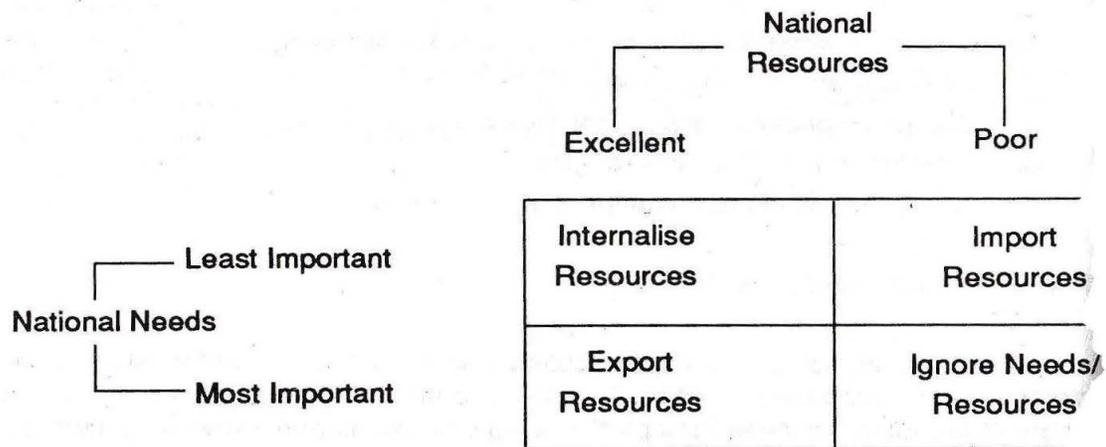
1. Political leaders by and large are Marxist in their ideology.
2. Their economic manifesto is the only solution for improving the average standard of living in developing nations.
3. Many countries practice reverse colonialism and exploit the multinationals for national as well as personal benefits.
4. Developing countries are so poor and backward that it is impossible to obtain a degree of business efficiency as is possible in advanced countries.
5. Unstable governments make it impossible to plan on a long term basis.
6. Developing countries have very selfish values. They invite you when needed but throw you out when they have absorbed your knowhow.

Unless there is a real bilateral attitude adjustment, this joint business marriage is destined to end up in a bitter divorce.

Strategic Planning of National Needs and Resources

The second step in the internalization process is for the nation state to examine and identify its strengths and weaknesses.

This will ensure proper linkage and correct utilization of the business partner in product/market development.



Multinationals will be particularly useful in those products and markets which are best suited for internalisation purposes (most important needs and excellent resources).

The particular types of business partners appropriate for different product/market situations are listed in the next page.

**Classification of Product/ Market Development
for the Internalisation Process**

		NO TECHNICAL CHANGE	PRODUCT IMPROVED TECHNOLOGY	NEW TECHNOLOGY
M	NO MARKET CHANGE	MARKET PENETRATION (OPTIMAL USE OF MARKETING MIX)	REFORMATION (MODIFY TO IMPROVE QUALITY AND/OR REDUCE COST)	REPLACEMENT (INNOVATE TO IMPROVE QUALITY AND/OR REDUCE COST)
A				
R	STRENGTHEN MARKET	REMERCHANDISING (MORE ATTRACTIVE PRODUCT TO APPEAL TO EXISTING MARKET)	IMPROVED PRODUCT (INCREASE USEFULNESS BY IMPROVED TECHNOLOGY)	PRODUC LINE EXTENSION (WIDEN PRODUCT LINE THROUGH NEW TECHNOLOGY)
K				
E				
T	NEW MARKET	NEW USE (CREATE NEW DEMAND BY USE EXTENSION)	MARKET EXTENSION (CREATE NEW DEMAND BY IMPROVED MODIFIED PRODUCT)	DIVERSIFICATION (CREATE NEW MARKETS BY NEW TECHNOLOGY)

It is very important to invite/select the right type of partner based upon the national distribution of products and markets in the above grid. Choice of a wrong type of partner and/or wrong reason is often the basis of conflict between the multinationals and developing nations.

How to Sustain Long Term Bilateral Commitment

1. Integrate the business partners in the national strategic planning process by treating them as one additional resource which has a significant role to play in industrial development.
2. Motivate the partner to share their expertise and resources by determining a reasonable pretax return on investment (ROI) commensurate with the risk and cost of capital. Then treat them like any other domestic corporation subject to all taxes, rules and regulations.

3. Do not offer any special tax or financial incentives associated with entry decisions. The same incentives should be offered to all business entities.
4. Encourage a formation of workable equitable competition in which joint business ventures will operate.

Reciprocity of Bilateral Strengths

A. What can multinationals do?

1. Provide worldwide experience of managing business functions in highly diverse conditions.
2. More efficient organisational structure and functions which result in greater productivity.
3. Global network of contacts for all types of technical, financial and human resources.

B. What can governments do?

1. Incentives for establishing ongoing operations as opposed to entry decisions.
2. Policy which is well defined based on a long term strategic plan.
3. Non-discriminatory attitude toward all businesses, including joint business ventures.

Successful joint ventures prosper when both partners view the business as "multi-domestic" rather than multinational.

PLENARY SESSION, SEGMENT TWO - SECOND SPEECH

THE HUMAN FACE OF JOINT BUSINESS VENTURES

Bata Shoe Organisation is the world's largest footwear manufacturing and marketing organisation, operating in over 90 countries through 100 companies. BSO was founded in 1874 by the 18 year old Tomas Bata at Zlin in Czechoslovakia. The headquarters was shifted in the early twentieth century to Canada. Tomas Bata's principle "...In any country, we work to put something into it, not to take something out..." has always been the company's philosophy.

BSO adheres to a decentralised operation with virtually self-governing companies under its umbrella. The headquarters of Bata Limited at Toronto is truly international, staffed by specialists from all over the world, selected on the basis of ability and not color or creed. At any time, it is not uncommon to find 10 or 12 nationalities working or training together.

As a fast developing country, India conjures contradictory images: growing industrialisation and urbanisation; and a population of 800 million and the consequent problem of unemployment. Yet India is a stable democracy with a free press. It has the third largest technically trained manpower base in the world. It has achieved self sufficiency in food grains production. Satellite based telecommunications link the entire country.

Amidst all this, Bata India, established in 1931, operates as the largest footwear company in Asia. It employs over 18,000 people and provides livelihood to more than 200,000 persons indirectly. Sixty percent of its share capital is being held by over 26,000 Indian shareholders.

To remain competitive, Bata India invests heavily in state-of-the-art technology, and R & D and training programmes to continually upgrade the skills of workers and employees.

The head office and Asia's largest footwear factory employing over 9,000 people is in Calcutta. Other factories are in Bataganj, Faridabad, and Bangalore. The two tanneries are at Batanagar and Mokamehghat (Asia's largest tannery).

Bata India's retail network is of some 1,200 stores throughout the country. The wholesale division has 33 depots catering to over 10,000 dealer outlets. In line with national objectives, Bata accounts for over 80 percent of India's canvas and rubber footwear exports.

Since inception, Bata India has been fully committed to the development and well-being of its employees. Workers at Bata factories are provided with company housing with spacious, well planned colonies. Preventive and curative medical facilities ensure a happy, healthy workforce. Batanagar has a modern 60-bed hospital where resident physicians and visiting specialists arrange for comprehensive care and treatment.

Six company schools offer free education to the children of employees. There are facilities for learning fine arts, music and dancing. Sports, games and cultural activities are a regular part of life at Batanagar.

Bata's philosophy underscores a commitment to the mutual benefit of both society and itself— to be concerned with national priorities as much as it is with the growth of its business. This is what we call "the human face of Bata." This stems from the realisation that a business organisation and society are interdependent. One cannot grow at the cost of the other.

Bata has always believed that large and small scale industries are complementary, especially in the footwear business. They need to grow and prosper together. In fact, they ought to be partners in progress. To this end, Bata has been a catalyst for the growth of the small scale sector, helping them learn new technologies and upgrade their skills.

Early Bata pioneers went into the interiors of India, and helped the villagers set up accessory and ancillary units. The villagers were provided with expert technical knowhow on the flaying and preservation of hides. An entire economy has grown around this activity — small leather units, chemical makers, and transporters. Bata buys considerable quantities of finished leather from these units.

Bata has encouraged the development of some 100 small units which manufacture handmade leather shoes. Bata is also a major buyer of numerous components, ranging from wooden heels to laces, toecaps to eyelets, made to its specifications by dozens of small suppliers. These items are almost entirely supplied by small scale and cottage sector units.

To upgrade the skills of these entrepreneurs, Bata arranges for regular dissemination of technical knowledge. Bata officials and foreign designers educate them in the finer aspects of styling and latest international trends.

Bata also helps these small units find a nationwide market through its retail network. To export the products of the small scale sector, a division has been set up.

Another aspect of the "Partners in Progress" programme are production-cum-training centres. The concept began with a call from Nobel Laureate Mother Teresa for the need to provide a secure future for orphaned and rural youth through vocational training. These centres are viable because Bata assumes the responsibility of marketing their entire production. From being caught in the prospect of a bleak future, these underprivileged people are now proud bread winners.

Bata also initiated self employment projects in a group of villages near Calcutta in the early 1980's. These projects have changed the lives of farmers, artisans, and cobblers, doubling their productivity and enriching the quality of their lives.

Bata's *raison d'être* may be summed up thus:

- * To take part in the national effort for rural development;
- * To help village craftsmen rise above their traditional levels and improve their living standards;
- * To assure small entrepreneurs of a fair return.

These efforts are directed at enhancing human dignity and building a better society — an expression of Bata's philosophy of "caring through sharing."

Bata has always been responsive to social causes beyond its own business activities. Today, the pollution of the Ganga - the Holy Ganges is a burning issue in India. Long before there was any general awareness of this problem, Bata has installed Effluent Treatment Plants in its tanneries. Bata has also supported the public awareness campaign entitled "Join the Wave to Save the Ganga." Mass media, posters, children's sit-and-draw contests - all these are being used.

To promote public concern about the menace of drug addiction, Bata recently sponsored a "Jogging Against Drugs" at Bangalore. In Calcutta, to involve the citizens in the "Calcutta I Care" programme, Bata organised a road race.

Since 1986, Bata has been sponsoring the training of nurses and midwives in a large hospital run by the Rama Krishna Mission - a voluntary service body. On completion of training, these nurses and midwives serve in the rural areas. Bata also encourages the development of young artists by arranging exhibitions of their work at the Bata Art Gallery.

The lack of marketing skills is the most serious handicap for the small scale entrepreneurs. To upgrade their skills, Bata has instituted training courses and the IMM Bata Awards exclusively for small entrepreneurs

In these and other ways, Bata India goes beyond mere profit motivation to fulfill its commitment to society and the country, in the belief that its business is "a good deal more than good shoes." Recalling the words of our founders: "... In any country, we work to put something into it, not to take something out ..."

INDO-AUSTRALIAN TRADE

Business and political leaders in India and Australia need to take a serious look at the future of their economic and trade cooperation. The trade balance is currently running three to one in Australia's favour with India buying an equivalent of \$ 431 million from Australia and Australia buying \$ 147 million from India (1986-87). For sustained trade one dictum is inviolable; "if you want to be a good seller, you need to be a good buyer."

India presently ranks number 10 in global industrial capacity, and is well on the way to becoming a major player on the global industrial scene. With liberalised industrial policies, it is expected that by the year 2000 India will have industrial centres that are efficient, powerful and competitive on a world scale. India's current population of approximately 800 million makes it not only a very large market but also a well positioned supply source for a very wide variety of products.

India's major export items to Australia are textiles and garments, engineering goods, leather, jute, cashew nuts, diamonds, footwear and sports goods.

India's imports from Australia consists mainly of coal, iron, steel, lead, zinc, rolling stock, and minerals.

The future prospects for Indian exports to Australia are in the engineering sector. The items identified for this purpose are electric motors, hand tools, builders' hardware, drills, pumps and compressors, auto parts, computer software, ceiling fans, etc.

A further growth for Australia could be in trade and tie-ups for science and technology in high technology areas such as latest airport navigational aids, railway equipment, mining equipment, oil exploration technology, rural communications, computer hardware, natural gas processing and distribution, food processing, tourism, etc.

The most serious handicap in Indo-Australian trade so far has been the gap in communications and lack of appropriate information regarding the industrial capabilities of each. To overcome this, several bodies have been set up to encourage the development of two-way trade and industrial collaboration, like the Australia-India Chamber of Commerce (1984), Indo-Australian Joint Business Council (1987), and the India-Australia Technology Centre which passes information both ways regarding technological capabilities and also promotes the interflow of technology. There are possibilities not only for trade, but also for joint business ventures.

In terms of repatriation of profits, it should be noted that India has one of the best financial track records among developing countries. It has always paid its bills.

AUSTRALIAN TRADE WITH INDIA

Australia's Exports to India	1983/84	1984/85	1985/86	1986/87
TOTAL	140,758	239,801	428,576	419,009
Dairy products and eggs	324	842	1,363	951
Vegetables and fruits	1,922	4,999	29,005	28,518
Pulp and waste paper	1,870	5,654	7,641	6,202
Wool and other animal hair (excl. wool tops)	48,572	58,237	86,220	80,303
Old clothing, rags	627	1,674	1,801	1,652
Metalliferous ores & metal scrap	4,078	3,981	8,660	4,954
Coal	21,824	76,961	178,532	188,090
Petroleum products and related materials	8,307	19,003	31,763	469
Animal oil and fats	6,080	51	299	98
Chemicals and related products	4,900	16,768	12,713	3,162
Textile yarn and fabrics and made up articles	2,002	1,642	236	124
Universals, plates and sheets of iron or steel	2,601	826	2,234	6,059
Aluminium	308	829	1,074	1,208
Lead and lead alloys	15,364	15,727	28,843	21,858
Zinc and zinc alloys	6,251	5,470	15,555	8,245
Power generating machinery and equipment	112	453	847	1,100
Machinery specialised for industry	466	710	887	1,510
General industrial machinery and equipment	2,147	1,300	1,660	1,594
Office machinery and automatic data processors	23	201	1,443	22,163
Road vehicles	466	347	215	1,065
Rail vehicles and associated equipment	135	1,401	701	361
Aircraft and associated equipment and parts	16	192	574	612
Ships, boats and floating structures	—	951	—	12,061
Professional scientific and control instruments	1,305	1,701	1,687	1,720
Optical goods n.e.s.	364	1,749	2,692	7,938
Items for which details not separately available	5,494	7,798	6,352	8,658
OTHERS	5,200	8,334	5,579	8,334

SOURCE: Compiled from statistics supplied by the Australian Bureau of Statistics.

AUSTRALIAN TRADE WITH INDIA

Australia's Exports to India	1983/84	1984/85	1985/86	1986/87
TOTAL	140,758	239,801	428,576	419,009
Fish, crustaceans & molluscs	2,312	2,351	1,742	4,570
Fruits & nuts (fresh or dried)	11,025	17,093	16,145	18,442
Coffee and substitutes	4,019	2,543	7,230	2,652
Tea and mate	5,048	6,081	3,911	5,615
Spices	826	1,646	1,997	2,918
Textile fibres (other than wool tops)	1,092	1,789	2,258	1,675
Stone, sand and gravel	1,958	3,557	3,060	3,112
Iron ore and concentrates	—	—	—	1,043
Crude vegetable material n.e.s.	990	1,510	2,082	2,115
Petroleum products & related materials	235	7,230	—	19,963
Dyeing, tanning and coloring materials	861	1,240	1,093	1,545
Medicinal and pharmaceutical products	409	623	637	1,055
Leather	8,843	11,309	15,052	21,108
Manufacturer of leather	2,527	3,669	3,795	1,934
Woven cotton fabrics (excl. narrow or special fabrics)	4,842	8,064	5,792	5,594
Textile fabrics, woven, other than cotton or mmf	4,714	7,347	5,476	7,115
Made-up articles of textile materials n.e.s.	7,695	7,649	9,025	6,854
Floor coverings, etc.	3,693	5,181	6,321	6,235
Pearls, precious & semi-precious stones	12,168	14,015	14,968	19,601
Hand/machine tools	1,006	1,458	1,077	922
Household equipment of base metals	3,485	7,503	8,238	6,569
General industrial machinery and equipment (inc. pumps)	1,814	2,450	2,561	2,878
Travel goods, handbags, etc.	2,383	4,177	4,647	6,428
Apparel & clothing accessories	13,548	18,522	23,413	25,233
Footwear	2,996	4,526	3,093	3,107
Perambulators, toys, games and sporting goods	3,866	4,462	5,030	3,527
Items for which details not separately available	258	352	379	731
OTHERS	16,700	22,786	21,630	20,921

SOURCE: Compiled from statistics supplied by the Australian Bureau of Statistics.

PLENARY SESSION, SEGMENT THREE

THE HUMAN FACE OF REGIONAL BUSINESS VENTURES IN FOOD AND MILK PRODUCTS

THAI DAIRY EXPERIENCE

MR. KEVIN LUSCOMBE

Chairman, Thai Dairy Industries, Bangkok

In 1960, I made my first overseas journey to conduct a test market for my then employers, H. J. Heinz to see if there was a sole trader or joint venture prospect to market powdered softdrinks in the major Southeast Asian markets.

The selected test area was Singapore. After several months in the market, I returned to Australia to suggest that the superficial attraction for the venture was becoming less practicable and potentially profitable with every week of market experience.

The following year, when we aborted the project in its original concept, I addressed an A.I.M. conference on the experience with a paper titled "East is East and West is West."

Twenty eight years and many projects in the region later, I find the implications of that title still highly pertinent and still an unseen trap or unaccepted notion for many conventionally prepared company managers and entrepreneurs venturing into foreign markets. It ought not be the case. It must not be the observation of the future.

Without wandering too far back into that early Singapore experience, one or two quick anecdotes still vividly clear in my memory point to the naivety of my approach to the different human experiences, attitudes, signals and cultures of our countries.

I had decided to throw away my marketing textbook and move into a more pragmatic test marketing mode. I judged that before too many market size and consequent financial projections were made, we needed to find out whether the mass market (not the smaller top end of the local economy and ex-pats who shopped in the then one or two "westernised" supermarkets):

- a. liked the taste of the product
- b. could accept the value of the product and
- c. had the cash to afford the purchase of albeit a very low priced product (in single envelope packs)

So to the shock of the company's very British trading agents for the area and the visiting US sales director for the region, I applied for a hawkers license and a stall at the Happy World Amusement Park - a place frequented daily by thousands of locals.

I advertised for demonstrator ladies to help sample and hopefully sell the product, then, set about having uniforms made to represent the four flavours, by color.

The interviews began at the trading agents office. I made my first choice with the fourth applicant. She left, leaving in her wake controlled giggles and smiling if not laughing faces. I asked my assigned secretary why this was happening. She smiled too and without any sign of discomfort told me I had just hired one of the best known "ladies" of Singapore, notable for selling something very different from powdered soft-drink.

Lesson one in the dangerous game of assumed local knowledge

Several weeks later, clutching my hawkers license, I went with two of the by then, experienced demonstrator ladies into a new area known to be shopped by a large number of the Indian population. They looked a little surprised and stood back from their usual smiling approach to potential trialists. Paying little attention to this change of attitude this "fools rush in" marketer moved into the stalls and started offering sample cups of the products only to receive more knock backs than any man deserves to receive in a lifetime.

It was a fasting period and it took more than several minutes before the errors of my timing and understanding sent me into embarrassed retreat.

The lessons continued. The product was not unfamiliar in finished form. The interaction of people, the human side of the enterprise was knee deep in unforeseen problems of unfamiliarity.

In fact, the final reason for the closure of the test market was the recognition of a lifestyle reason.

They liked the product very much, and a satisfyingly large segment of the population could afford to regularly buy the product. But the habit was to drink this sort of product on the street from itinerant bicycle riding hawkers who filled their offering with ice. There was almost no method of refrigeration in the homes of the mass market and that is where you prepare and consume the powdered drink product. The normal argument of taste acceptance and low price were irrelevant to the final decision.

So much for my first real world business education. It taught me more about the importance of people, culture and lifestyle differences than it did in the more conventional marketing practices.

Today it is my pleasure to spend a little time highlighting a much more rewarding and larger success story for an Australian joint venture into Southeast Asia - the Australian Dairy Industry's investment in Thailand as a partner in what has become the largest single packaged milk producing plant in the region, now geared to become Thailand's largest food processing group - The Thai Dairy Industry Co. Ltd. (TDI).

In covering the case history and extracting some lessons worth noting, I can do it with the first hand experience of the past twelve years, the last seven as Chairman of the Board of TDI.

I can also do it without any concern for ego tripping, as the real geniuses went well before me in setting up the concept of recombined milk plants to:

- a. bring a nutritionally important and market needed product to this wonderful, developing country of Thailand.

- b. guarantee a market for Australian milk powder and butter oil in the then concerning climate of the early days of EEC and the attendant world dairy market impact, and
- c. utilise Australian dairy technologists' skills and experience in their world leader role.

The fact that we are in a position today to be concurrently:

- a. the dominant brand in canned milk products;
- b. packing and marketing full cream milk powder;
- c. building a viable long-life drinks division as the market innovator and leader;
- d. developing the yoghurt market with a license for the world's No. 1 yoghurt marketer, YOPLAIT;
- e. co-venture partner with the world's largest food company Nabisco Standard of the USA in a biscuit and snack foods company manufacturing and marketing just outside Bangkok;
- f. pioneering cool drink vending for long-life drink products and;
- g. working on three more new product entries;

is also because of a sensibly structured, well managed, mutually rewarding business base established with shared resources on a relatively uncomplicated product and market opportunity.

It took a reliable quality primary industry, some vision, faith in our technical expertise and faith in our local partner's entrepreneurship - and the normal allowance for give and take in any committed marriage of interests.

Perhaps one or two comments of broader observations on joint ventures in Thailand would be worth making.

As my own special area of interest is marketing, I have often been surprised at watching visiting marketing management groups to countries in this region make the assumption that all marketing knowledge rests with the developed countries - US, UK, Europe, Australia.

The assumption appears to have some psychological basis in the language difference ("if they cannot all speak English, they cannot know all about advertising and sales promotion and certainly not market research) and some in the trap of seeing physically unsophisticated market place outlets.

Let me just say that there are a lot of very smart and experienced promotional people in these markets. And they are not shy when it comes to putting their money behind a program.

For example, in one of our Mali milk (our no. 1 brand) consumer promotion the prizes started with three Mercedes Benz. Others have given away gold bars worth hundreds of thousands of \$A's. Entries ran to multi-millions. Brand fighting tactics are smart and relentless.

For advertising in Thailand you have home penetration of television of just over 50 percent across all Thailand's nine million homes, housing the 55 million population.

In the Bangkok market, television enters a staggering 95 percent of all homes.

The top rating show on one of the four commercial channels has an audience of 2.8 million viewers.

So there is no shortage of good local savvy (including some established ex-pats) on how to use the medium, with local commercial production standards improving noticeably in recent times.

On the research front, let me simply say that any excuse of not knowing the market because the standard of availability of local research practitioners was not up to the requirement, is one which you can ignore. The talent, application, methodology and commitment is there for intelligently probing markets if you know what it is that you want to find out.

Similarly, in financial management, there is both the innate money moving and making knowhow of the oriental generations and well-educated operators and controllers.

Again, one observes the ego based blind spots of the visiting executive who assumes the need to teach.

They are often the same unfortunate losers who are totally bewildered by the "mystery" of a competitor who appears to be profitable in a market where they cannot get any sort of a margin.

They fail to notice that their "privileged" multinational bank lending rate is a long way above the cost of the competitors funding which so often comes via the carousel of personal cooperative lending.

Let me return now to Thai Dairy and take you through the key events in the company's history before I draw one man's observations on the experience and the notable lessons relevant to the theme of this conference.

Today Thailand has:

1. a population of 55 million. This means for business a fairly large internal market.
2. the endowment of rich commodities in the agricultural sector to the establishment of a varied and strong industrial base.
3. valuable and rich mineral deposits.
4. gas and oil finds being largely exploited now, with good reason to believe that the reserves are quite substantial.
5. labour available in large numbers of hardworking people amenable to training for almost any discipline (but not without the need for supervision against habitual work style modes)
6. the combination of the geographical and strategic position which, together with low labour cost collectively make Thailand a very advantageous place to ship locally produced products throughout the world.

1962 saw the establishment of the Thai Dairy Industry Company Limited as a joint venture between a farsighted group of Thai and Malaysian businessmen and the then Australian Dairy Produce Board, now the Australian Dairy Corporation. With the objective of producing high quality dairy products for local and export markets, the venture gained Board of Investment approval and certain promotional privileges were granted.

Twenty six years later, the Australia Dairy Corporation continues to give full support to TDI through the supply of skim milk powder and butter oil and continuing technical assistance to maintain a rigorous quality control programme.

All other materials such as fresh milk, refined sugar, vegetable oils, tin plate and packing materials are repurchased locally. In fact, Australia has played an important role in helping Thai authorities improve the efficiency and quality of the local dairy farming.

Today "Mali" (TDI's brand graphically depicts the Thai orchid), is Thailand's most popular dairy foods brand. Our products include sweetened condensed milk, evaporated milk, sterilized UHT milk, instant full cream milk powder, and pure creamery butter.

Following the completion of factory construction in 1965, production of Mali Sweetened Condensed Milk commenced. This product category has traditionally been the most widely consumed milk product in Thailand, being easy to store and priced economically.

Almost immediately following its launching, Mali Sweetened Condensed Milk achieved the highest brand sales in the category. This position of clear market leadership through sales volume and carefully monitored consumer preference has been maintained since that time.

Mali Sweetened Condensed Milk, sold in sealed cans, is enjoyed as an ingredient in many types of drinks. It is also spread on bread, used for cooking, and is often mixed with water to create an instant drink.

In May of 1971, TDI began production of Orchid Butter. Two varieties were launched, slightly salted packed in gold foil, and unsalted packed in silver foil. Like its forerunner, Mali Sweetened Condensed Milk, Orchid Butter rapidly gained the major market share, and has continued to increase its popularity. Today, besides foil wrapped varieties, Orchid Butter is sold in two sizes of gold can.

October 1972 saw the launching of TDI's third product, Mali Evaporated Milk. Mali Evaporated Milk, also in cans, is used in infant feeding or as family table milk (with water). It is used to enhance the flavor of coffee and tea, and is also used in cooking.

A programme of substantial capital expansion was pursued from 1978 to 1979 with the expansion of the SCM line, can line, storage and distribution facilities including the installation of the UHT equipment and production facilities. Major work was completed towards the end of 1979. On October 6, 1979 the Right Honorable J. D. Anthony, the then Deputy Prime Minister and Minister for Trade and Resources of Australia, presided over the official commissioning of the new extensions to the plant of TDI.

Diversification into UHT milk (plain and flavored) aimed at broadening and consolidating the company's position in an increasingly competitive market was completed early 1980.

Recently, the company introduced automatic vending machines to Thailand from which its UHT milk is served readily chilled and fresh to consumers.

During the decade of the seventies, there were a number of significant events and accomplishments that should be highlighted. 1970 was the year when our promotional privileges certificate expired and TDI had to absorb tax fully. Nevertheless, we managed

to finish the year with a reasonably good profit inspite of the fact that the costs of imported raw materials had already started increasing.

From 1971 to 1974, we experienced very low profitability. We suffered financial losses in 1972 and 1973 due to rapid increase in the prices of raw materials - SMP and butter oil — and to disastrous price control. During the period, we were forced to sell below cost. One reason why we recovered and survived from the ill effects of price control was due to our strong marketing leadership and our market share. Our investment in a disciplined brand paid off.

Far more importantly, our partnership had grown in understanding. Our knowledge of the management and staff and their understanding of our attitudes and philosophies had continued to develop. Our mutuality of purpose had flourished.

In the early eighties, the worldwide recession had its repercussions in Thailand. All business sectors suffered; the milk business was also seriously affected, and our sales of canned milk products declined. From 1980 to 1982, we experienced very low profitability with losses in 1982.

We had entered 1980 facing sharply rising prices of raw materials such as milk powder, milk fat, and particularly sugar the price of which rose by about 50 percent over the previous year. On the other hand, price control on milk products continued to be rigid.

1981 faced a similar situation of sharply rising input prices and rigid government price control on the milk products. However, 1981 was the first year when we achieved the Baht 1 billion sales - but with a profit of only A\$ 700,000. The following year another loss - approximately A\$ 370,000.

In 1982, the unfavourable economic situation prevailed throughout the year due to the more serious and continuing recession. TDI suffered a financial loss of Baht 6.7 million or A\$ 0.37 million.

From 1983 to 1985, we achieved very satisfactory results due to increases in sales volume, significant reduction in the price of two major raw materials (skim milk powder and butter oil) and a continuing major improvement in manufacturing efficiency (installation of a Profit Improvement Program with savings in energy cost achieved through a sustained programme of upgrading and modernizing various classes of equipment used in the plant).

Next Monday at the annual general meeting we will announce that sales are approaching one and a half billion Baht and the shareholders will learn of a recent profit of equivalent to A\$ 6 million.

But, for the people and goals of this conference beyond the profit scoring, there is the very important aspect of social responsibility.

The company has always been aware of the role it plays in society and its function, not only as a commercial enterprise providing benefits to its customers, shareholders and personnel, but also as a promoter of charitable activities for the society as a whole, including:

- His Majesty the King's programme for promotion of dairy cattle farming
- His Majesty the King's charity programmes
- Her Royal Highness The Princess Mother's school construction programmes

As part of its community activities programme, the Thai Dairy Industry Company Limited made a donation to the Royal Charity Project of Her Royal Highness the Princess Mother for the construction of a school in the remote area of Tung Kang Yang Village, Nam Tok Commune, Sai Yoke District, Kanchanaburi Province (where the famous Bridge on the River Kwai was constructed), Thailand. Other contributions made by the firm are:

- Creation of a special fund for research and development within the national dairy industry including annual scholarships for deserving university students.
- Conservation and propagation of Thai cultural heritage by promoting Thai cultural programmes on the national television network.
- Promotion of sports. Today the Thai Dairy Industry has made it a policy to participate actively in all community sport activities whenever possible in line with the image of our company's products. In 1985, TDI officially sponsored the 13th SEA Games in Bangkok. In order to help make it a great success, TDI donated Baht 2.5 million cash and dairy products for Thai sportsmen worth Baht 124,000.
- Last year as part of our 25th anniversary, I visited schools for the blind with the Managing Director Mr. Saw and our wives to hand over significant donations as a way of celebrating our good fortune in the market over the quarter of a century. Money also went to assistance programs for the extremely poor and those isolated with incurable illness.

The Company has not only substituted imports successfully, thereby saving Thailand billions of Baht in foreign exchange, but it is also competing abroad with major suppliers from elsewhere to develop its export business, thus contributing to Thailand's efforts to improve the balance of trade. Also, because of TDI's success, many supply industries in Thailand have been stimulated and strengthened.

A recent statement from the Company sums up the situation best:

"The Company is engaged in an aggressive development and diversification programme both within the dairy area and also in the general field of packaged food products. As future projects become a reality, the Thai consumer will enjoy an ever widening range of consistently high quality, fully nutritious food products at fair prices.

"The Thai Dairy Industry Company Limited has grown, prospered and become more firmly established through the years. We have plans for production of numerous other dairy and supplemental food products. Every step we take forward represents a step higher in the well-being of the people of Thailand. Our products are rich in nutritional value for the enhancement of healthy growth, and it is only logical that we firmly take the stand poised for another long stride ahead, armed with our fundamental attitude towards our beloved Thai people that your good health is our pride and joy."

Some 800 Thai employees work in the Thai Dairy Industry, and the company enjoys a high reputation for the provision of excellent working conditions.

So much for the guided tour. What of the guiding lessons?

Without attempting to weigh these in any order of critical priority, I suggest the following morals for the study of TDI:

1. *A genuine market opportunity*

A joint venture is no different from any other new commercial enterprise in its demands for identifying a marketable opportunity. If a market gap is not really available or leverage via superior product or marketing performance is not viable - one and one will not make three - or even two. Adding the reputation of one new foreign company to that of a local partner has little realisable synergy if the market opportunity is not really there.

TDI brought the Thai market a needed product at a wanted level of quality and value. The Mali brand was launched into a genuine market opportunity.

2. *Real need for imported skills and materials*

There was an equally genuine need for imported technical skills and raw materials to meet the required product performance. The technical knowhow was not a marginal step above local experience. The raw material quality and specifications were not marginally better offerings.

3. *Partner's commitment*

The local partner was totally committed to the success of the venture. It was not added interest with only partial impact on their commercial and economic success.

4. *Positive government interest*

The product category (dairy food) was of known importance to the dietary and health development of the Thai people and as a result held more than passing government interest.

5. *Detailed accountability agreement but flexible relationship*

The partnership agreement was tight on detailed accountabilities and lines of management delineation, while the partnership environment was nurtured with the flexibility of informal, friendly relationships.

6. *Quality of people earns confidence*

The quality of the people (owners and management) of the local partner was recognised and earned the confidence for sound planning and critical timely investment

7. *Australian Dairy Industry's international standing*

The acknowledged role of the Australian Dairy Industry in the international scope of that industry was an important influence in times of volatile changes in market supply and input prices.

8. *Strength of Australia's standing*

The particular parentage of the Australian partner (i.e. the Australian government and dairy industry via the Australian Dairy Corporation) was a valuable asset in trade negotiations and offshore financing arrangements.

9. *Local partner's reputation*

The chief operating executive of the company, as the major shareholder, has earned an enviable reputation within the Thai business community and government in the process of building this business.

10. *Early success provides recruitment leverage*

Success of the venture has enabled a high level of expectation in local management recruiting for business expansion.

11. *Respect for cultural differences in decision processes*

Patience in the decision making process (both management and board issues) is required to recognise and fully accept the cultural differences in basic business approaches.

12. *Danger of assumed knowledge superiority*

Assumed superiority of knowledge should always be carefully tested for the soundness of that assumption and (even if validated) rarely used to override local market appreciation.

13. *Mutual respect of contributions*

Respect of each other's contributions must be both earned and continuously recognised.

Beyond my observations let me quote to you from a brief commentary by the Managing Director of Thai Dairy, Mr. Saw, on the subject of joint ventures:

"I have come to the conclusion that the factors that favour success are:

1. absolute sincerity in the approach to joint partnership;
2. the foreign company should control any desire for majority partnership. A majority partnership is not sound policy for the longterm and will bring a train of disasters;
3. the foreign party should also exercise a great deal of circumspection in the selection of a local partner. The wrong choice may well result in a can of worms."

Perhaps the final word might be found in a comment from the founder and owner of one of the Southeast Asian region's biggest and most successful banks - the Bangkok Bank, the legend-of-his-own-lifetime, Mr. Chin.

I had the privilege of attending a small private gathering at the time of his recent retirement from the chief operation executive position at the Bank. He had been a great commercial and personal friend to Thai Dairy in its developing years.

I asked Mr. Chin if there was one outstanding observation from his almost unique experience as a banker, one point which stood out in his process of learning and achieving.

He smiled and with little hesitation he replied via his son the incoming bank president "my father says, you bank with the man not the company."

I suggest there is a depth of meaning in that for anyone contemplating a joint venture in a foreign country.