After last year, I'm not sure how many forecasters are left after the inevitable losses from self-inflicted personal injuries that follow a bad year for forecasters.

Our crystal ball, fortunately, was reasonably clear for 1973, and we ended up missing the actual of 572,000 by only 400 units. The low SAAR for December was influenced by an unusual registration processing lag, and the January '74 figures have verified this.

Apart from ourselves, the industry is forecasting a drop in '74 full year registrations to around 560,000 or a drop of 2.1% on '73.

Our crystal ball says 74 will be in excess of 600,000, although with a levelling off in the SAAR in the second half.

Our reasons for this are relatively simple—

1. Our forecasting model is still showing itself to be relatively accurate.

2. The market has declined on only 5 occasions since 1949, and on each occasion the decline was the result of official government actions in contexts that in our view are not applicable to 1974 or are unlikely to produce from this government reactions similar to those that would probably have occurred had the previous government been still in office.

Nevertheless, the so-called "oil crisis" could produce a new set of variables. In our view, the impact of the oil situation on the Australian Market for 1974 could lead to improved supply, and coupled with the apparent readiness of our government to implement spending proposals shelved or delayed during 1973, thus offsetting any timidity from the private sector, consumer demand will not slow as rapidly as some oracles seem to think.

It is also worth noting that in our industry in particular, inventories of components, vehicles and replacement parts seem to be at an all-time low. Not only do these inventories have to be replenished, but there is a gathering body of opinion that suggests that additional holdings are needed to cushion the impact of industrial relations troubles. In our industry, these troubles seem to occur in different parts of the logistics system at different times, and inventory holdings at above normal levels would reduce the total impact throughout the year.

One other important requirement is for continued capital spending by some automotive suppliers to adjust their capacities to present day realities of complex product lines, the need to recover production lost by industrial disputes or short-term raw material supply problems. On the other hand, improved production scheduling and control by automotive products manufacturers, coupled with closer vehicle/component manufacturers liaison on forecasting, could reduce the need for additional capacity in those supplier units where capacity is a problem.
Naturally, the current government inquiry into the industry introduces some uncertainties that seem to be affecting the confidence of some suppliers.

So, let me touch briefly on this inquiry. My purpose is not to comment on what should be the outcome - we have already done that in our quite voluminous testimony.

Rather, my purpose is to hopefully provide a brief perspective on this complex matter, covering the various outcomes that are theoretically possible.

First, what are the industry problems that need solving? On this, there seems to be general consensus. They are as covered in detail in our submission:

1. Product proliferation,
2. High cost of local content,
3. Uncompetitiveness in export markets,
4. Fragmentation of resources.

As I said, these seem to be generally accepted.

Recognizing that the Board's findings and recommendations and the government's decision on future policy may be at variance, between the two, there seem to us to be four basic outcomes theoretically possible:

1. A positive policy in favour of built up imports with appropriate accompanying measures.
2. A tariff reduction on vehicle/components (time phased or not) with no local content plan (i.e. no way to get duty-free entry of some components).
3. A tariff reduction on vehicle/components (time phased or not) with a modified local content plan that simply lowers the level of local content required.
4. A modified local content plan that changes the nature of local content, but preserves overall a relatively high level of local content.

What are the effects of each of these? and will these effects solve the basic industry problems and also meet the government's policy objectives as stated in the reference to the Board?

Alternative 1. is basically the same in end result to alternative 2 in my view - essentially, a positive policy in favour of built-up imports or the elimination of a formal local content plan, with either course inevitably requiring a drop in tariffs on vehicles and components, will lead, sooner or later, to the elimination of local manufacturing.

I say this primarily because I question the viability of Australia as a component manufacturing source in such a context. It would mean that the major part of our production would have to be devoted to component export, and I question our ability to achieve cost and efficiency levels that would have to not only equal world standards but would have to better those standards to overcome the economics and supply of shipping needed to offset - as Geoffrey Blainey's now-famous phrase puts it - the "tyranny of distance".

The often-espoused market potential of south-east Asian countries will not be realized for some time to come, and in any event, the growing economic nationalism of these countries (not unlike our own of the past) introduces complications in trade, logistics, economics and politics of a kind that only the giant multi-
nationals can afford to handle. The payoff could be huge, but so are the risks inherent in the individual elements of such a south-east Asian market-sharing concept.

The third theoretical possible outcome is a tariff reduction (time-phased or not) coupled with a modified local content plan that simply lowers the level of local content required, but still keeps the level relatively high (e.g. 75-80%).

As we see it, this solves not one of the four industry problems I defined earlier, and would in the long term fail to achieve most of the government's stated policy objectives:

(a) It would lead to increased product proliferation.
(b) It would lead, in the short term, to some further local manufacturing investment by those wishing to secure current or increased share of the local market, but at a cost that would mean a continuing high cost of local content.
(c) The products manufactured under such a local content plan would continue to be as uncompetitive in export markets as they are today, because lower-cost versions would be available from other countries.
(d) And the current resource fragmentation would be aggravated - even if sharing of production facilities was undertaken - because the scarcest resources - technical manpower in manufacturing, skilled after-sales servicing, and vehicle and parts distribution systems - these most scarce resources would be spread even more thinly than they are today.

The fourth theoretical possible outcome is for a modified local content plan that changes the nature of local content, but preserves overall a relatively high level of content while at the same time attacks directly:

1. Product proliferation,
2. High cost of local content,
3. Uncompetitiveness in export markets,
4. Resource fragmentation.

In case you haven't guessed, this is the kind of plan we have proposed. It is a complex proposal, but we believe that in our public testimony we have identified such a plan in some detail, and in our confidential testimony, the detailed supporting facts that substantiate our basic proposal.

Essentially, we have proposed a plan that will:

* Lead quickly to the development of indigenous, technologically advanced products capable of competing domestically with imports coming in through lower tariffs.
* Expand the activities of those segments of the automotive components industry that produce low-cost high quality products.
* Eliminate those elements of vehicle manufacturers' own component producing activities that are clearly uneconomic (e.g. some engine manufacture).
* Overall retain a total level of component manufacturing activity in Australia comparable to that of today, but with some redistribution of this activity.
* Within 10 years put Australia firmly on the map as an originator of vehicle design, with products competing in particular segments of the domestic and world markets.

In the Australian context, our concept in approach is not dissimilar to that which has led to countries such as Sweden standing firmly in a world crowded by the automotive giants of America, Japan and Europe.

As I said earlier, there are several possible outcomes of this enquiry. None can be eliminated from consideration when one considers not only the complexity of the problems and opportunities, but also the potentially conflicting criteria that can be used to analyse the problems and opportunities, and the multiplicity of domestic and external political, economic and industrial factors that can weigh heavily in the government’s final policy determination.

One thing is sure: This is, in my opinion, potentially the most significant government industrial/economic enquiry ever launched in Australia. Whether it turns out to be just that will depend on the thoroughness and objectivity of the commissioners, their staffs and the government political and administrative groups that are, and will be, involved in the final outcome.

---

**BOOK REVIEW**

**CREDIT AND SECURITY IN KOREA**

University of Queensland Press, 1973

It must be made clear at the outset that this volume concerns only the Republic of Korea, usually referred to as South Korea. It has a modern form of constitution with a President as chief executive, a House of Representatives, rights to private property and equality before the law, considerable personal freedom to engage in economic activity, and a judiciary detached from the executive and legislative branches of government.

Since the 1953 armistice not only has war damage been repaired but, through the implementation of five-year plans and the work of the Economic Planning Board, basic industries have been developed and an increasing degree of economic viability attained. The system of law is more German than French but is essentially of the codified civil law rather than the common law type.

There is therefore scope for lending on security, but the legal system does not work as well as it should and inflation is a continuing problem. The authors include a professor of law at Seoul National University, and the chapters on forms of security, their documentation and enforcement, are authoritative and should be helpful to Australians doing business with South Korea.

Whilst the economy has, overall, grown rapidly there are areas of weakness, particularly in manufacturing. Debt ratios are high, interest rates very high indeed by our standards, and the securities market is relatively undeveloped. Loan funds, despite substantial foreign funds from the U.S.A. and Japan, are not adequate to meet the demand.

Stringent financial controls are applied over the banks and other financial institutions but economic growth is being held back by lack of legal and administrative skills and experience. Legal forms are either adequate or could be readily introduced, but they cannot be really effective until these skills are attained. Other countries may suffer in the same way, but the now rapid pace of development in South Korea makes their provision urgent.