



PRIME MINISTER

CHECK AGAINST DELIVERY

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SPEECH BY THE PRIME MINISTER
LAUNCH OF THE GARNAUT REPORT
"AUSTRALIA AND THE NORTHEAST ASIAN ASCENDANCY"
SYDNEY - 22 NOVEMBER 1989

When I commissioned Ross Garnaut last year to write a report for the Government on Australia and Northeast Asia, I did so with two thoughts in mind.

First, I knew that Ross, with the depth of his experience in academia, government, diplomacy and commerce, was extraordinarily well placed to recognise and analyse the fundamental changes taking place in Australia and Asia.

Second, I wanted him to write a report that would, wherever he saw necessary, provoke further debate in the Australian community and suggest further policy initiatives for the Australian Government.

I wanted an expert report and a stimulating report. I got both.

This report is a landmark that can and should profoundly influence the way Australians think about our country and its place in the region.

It is a report for all Australians. Its analysis and recommendations are not directed solely at the Commonwealth, or to Commonwealth and State Governments alone. Rather it is a report designed to encourage community discussion and debate - including by governments - on Australia's place in the region and how we might best go about adapting our country to realise more fully its almost unbounded economic potential.

It is a report whose impact reaches into virtually every aspect of Australian society - just as the process of economic internationalisation it describes and advocates has triggered far reaching change in attitudes and practices throughout the Australian community.

And that is why some of the key recommendations of the report relate to our education system, to our industries, to our infrastructure, and to the capacities of the bureaucracy to analyse and advise on change in Northeast Asia.

The report is a product of, and a further spur to, the process of economic reconstruction and enmeshment with the dynamic Asia Pacific region that has been a principal focus of my Government's activities since we came to office in 1983.

Ross Garnaut's vision is of an Australia that grasps, in his words, "the prosperity, self-confidence and independence in an interdependent world that earlier Australians in expansive times had hoped for their country". In this, he is articulating a goal that I wholeheartedly embrace.

Much that he recommends has already been done - indeed, such is the pace of reform in Australia at present that, as Ross himself acknowledges in several important areas, recommendations have been overtaken by policies.

Yet there is of course much in this report that is new, forward looking, stimulating and refreshing.

The key elements of this report, and certainly its underlying philosophy, must form part of any forward agenda for an Australian Government looking into the 1990s and towards the next century.

So I say at the outset that I welcome this report and, although I am not of course in a position today to give a comprehensive response to its the recommendations, I can assure you that they will receive close and very sympathetic consideration by me and my Cabinet colleagues.

I want to describe in a moment the specific measures I propose to set in train in response to the report.

But first I want to comment on the way in which the debate in Australia about economic policy-making has changed since 1983.

When we came to office we were confronted by a situation Ross Garnaut describes in the following terms:

"For the first seven decades of the Federation a fearful, defensive Australia built walls to protect itself against the challenge of the outside world and found that it had protected itself against the recognition and utilisation of opportunity".

In other words, we had walked down the gentle path to economic mediocrity.

Ladies and gentlemen

Let me make this brutally stark and unarguable point. When we came to office in 1983, for 30 of the 33 previous years the conservative parties had governed this country. The institutions, the attitudes, the assumptions, the practices of the Australia we were elected to govern were those that had emerged from, and that we inherited from, that governance of timid and unimaginative mediocrity.

For three virtually uninterrupted decades there had been a haphazard and short-term response by conservative Governments for which surrender to sectional interest groups had become the operating principle.

That was the dimension of our challenge - our challenge together as a Government and a community.

No one can realistically suggest that it would have been possible to change the effects of that legacy overnight, or indeed in one or two years.

But I do say to you that, together, we have changed the perceptions, the horizons, the sense of direction. Today, the long-term direction in which we have to travel is clear to all: we have to internationalise.

The only real debate is about how we go about the process of reform and how fast we do it.

Putting accuracy before modesty, let me say my Government can take much of the credit for the fact that Australians are far more outward looking, more comfortable with, and more effective in, the region than they were just seven years ago.

In 1983 who would have thought that by 1989 we would have a floating dollar, a deregulated financial sector, a program that by 1992 will see most tariffs at either 10 or 15 per cent, an end to the two airline agreement, dividend imputation and a 39 per cent company tax rate, new competition in areas of telecommunications, deregulation of oil marketing, the removal of most foreign investment regulation, the deregulation of air charter policy, moves to enterprise employment on the waterfront and a clear program of manning reductions on coastal shipping to OECD levels?

And that is by no means a complete list of our micro-economic reforms. But it is a list which establishes another irrefutable fact - no other period of Australian peace-time history has come within cooe of that range of micro-economic reforms.

In 1983 who would have foreshadowed Australia heading a Cairns Group of fair traders that has taken a leading role in the current round of multilateral trade negotiations; and who would have foreshadowed Australia hosting the Inaugural Meeting of Ministers from 12 Asia Pacific countries aimed at closer economic co-operation in the region?

Our domestic and foreign policy, the political and economic components of foreign policy, and our bilateral and multilateral approaches in seeking to implement those policies, have been - and must continue to be - complementary, consistent: as Ross has put it to me - a seamless web.

To illustrate, we have given credibility to our international campaign for trade liberalisation by implementing substantial cuts in domestic protection - and, to take the other side of the coin, our domestic campaign to open the economy has been strengthened by our success abroad in securing market access for efficient Australian producers.

It would have been inconceivable for Australia to have hosted the APEC Meeting had we still been operating under the regime of protection and introspection we inherited. Nobody would have turned up.

There is no simple division between bilateral, regional and multilateral spheres of diplomacy. Lack of co-ordination between any of those, or between them and domestic policy, is a deficiency that could only reduce the effectiveness of all policy.

Let me also make it clear that in commissioning this report I did not have in mind that Australia's future lies exclusively in its relations with the countries of Northeast Asia. But the historically unprecedented growth that has occurred in Northeast Asia over the past four decades has spurred growth in Southeast Asia and the rest of the world. The impact on Australia of growth in Northeast Asia has been, and will continue to be, profound.

Throughout that growth process there has been a remarkably close complementarity between Australia and Northeast Asia.

The early stages of Northeast Asian growth required natural fibres for textile industries, and we benefited from this; mineral raw materials were necessary for later heavy industrialisation, again bringing benefits for us; then more processed raw materials were needed of us; and today tourism and other high quality services, that Australia is well placed to provide, figure prominently in the consumption of a prospering Northeast Asia.

As we enter the 1990s, Australia's need for highly skilled migrants and foreign capital will further reinforce that complementarity.

In his letter submitting his report to me and to Gareth Evans, Ross takes all this together to conclude:

"Development in Northeast Asia, together with the progress that has been made in recent years on the internationalisation of the Australian economy, make the next few years a time of great opportunity".

Ross Garnaut has actually endeavoured to quantify that opportunity, and arrives at a figure of around \$20 billion in export earnings that could become available to Australia largely through the sale to Northeast Asia of processed raw materials and of services, particularly tourism and education.

Australians have heard many a false promise of economic expansion and imminent resources booms. But Dr Garnaut paints a very different outlook for Australia today:

"Australia's advantages this time are a wider community perception of the magnitude and complexity of the task, and a recent record of solid achievement on policy change in the directions that are necessary for long-term success. A start has been made on reform in most of the areas where change is necessary."

The investment boom we are currently experiencing - with business investment at its highest levels in 40 years - and the new investment in the pipeline or under consideration all indicate that the process is well underway.

Access Economics recently surveyed large investment projects with the potential to earn foreign exchange. It found projects worth \$49 billion that are under construction or committed, and other projects worth an additional \$41 billion in an advanced stage of planning.

The survey identifies six major committed investment projects which in a few years are expected to generate close to \$5 billion a year in exports.

This is equivalent to about 30 per cent of our current account deficit.

Australia needs this investment if it is to re-tool; if it is to have new factories producing new goods; if it is to have new hotels, new planes, new tourist resorts; new ships carrying Australian natural gas; if it is to take full advantage of the enormous growth opportunities available in the region and beyond.

But the investment must be financed. That this investment financing has contributed very greatly to the growth in Australia's external debt is reflected in the composition of our net debt: 63 per cent private, the remainder being owed by statutory authorities and State Governments. The Commonwealth, through the series of Budget surpluses we have run up, is a net creditor abroad.

Reinforcing the internationalisation of the Australian economy is the upsurge in equity investment by Australians in overseas companies. The outstanding value of this Australian investment abroad has jumped from less than \$7 billion in June 1983 to \$49 billion in June 1989. If my Government had not freed up opportunities for this Australian investment abroad, Australia's net foreign debt could be up to \$42 billion, or nearly 40 per cent, lower than it is now.

But this investment will yield future income for Australia: already the country is receiving \$3 billion a year in income from Australian investments abroad, more than double the inflow of only three years ago.

And our investment abroad is playing a critical role in more fully integrating Australia into the world economy - generating markets, technology, ideas.

This is not to say we should be complacent about Australia's indebtedness, but neither should we be unduly pessimistic. We could not reconstruct the Australian economy without it. As the Garnaut Report demonstrates, the countries of Northeast Asia ran large current account deficits when reconstructing their economies.

Australia's indebtedness is financing arguably the most dramatic reconstruction of the Australian industrial base in the nation's history. It would be better if we could do it all on domestic savings but we haven't before and we can't now. So let's get the debt in perspective: it's by no means all bad news as the jeremiahs suggest.

Certainly if Australia is to chase the \$20 billion extra exports that Dr Garnaut identifies, additional investment will be required.

So too will further policy changes.

We have never pretended economic restructuring is a simple or rapid process and the Garnaut Report has given valuable advice on how to proceed.

The Structural Adjustment Committee of Cabinet - the engine room of economic reconstruction in my Government - will have the task of deliberating on all aspects of the report.

It will, very significantly, consider carefully and in detail the step that Dr Garnaut describes as "the most important single step" - the abolition of all Australian protection by the beginning of next century.

I can say at the outset that this recommendation is one with which I have considerable sympathy.

Our industries can only be internationally competitive exporters if their cost structures are not inflated by domestic protection, and if they operate domestically at world prices.

As we continue to liberalise the product market, so too will we encourage and implement further labour market reforms.

The current process of award restructuring is a unique means of tackling some of the barriers to improved industry efficiency and productivity.

It provides both the opportunities, and the necessary safeguards, on overall wage outcomes.

It will cater for a more concerted move away from inter-industry or occupational awards and fragmented, craft based unions to arrangements that better reflect the needs of individual industries and enterprises.

Ross Garnaut says his second most important set of recommendations - after further trade liberalisation - are those concerning education.

His report calls for a much greater commitment at both secondary and tertiary levels to the study of Asian languages, history, culture, economics and politics. It recommends filling important gaps in links with the Republic of Korea and Taiwan.

The aim essentially is to educate the community about Northeast Asia.

My Government takes pride in the fact that our policies and programs in education are the first of any Australian Federal Government to recognise the importance of Asia.

We will use the impetus of this Report to do much more.

The Asian Studies Council, established in 1986, and the Languages Institute of Australia, established only this year, will contribute significantly to the study of Asian languages.

Funding for growth in student places, research funding from the Australian Research Council and scholarships worth \$1.25 million this year will also support the spread of knowledge in Australia of Asian cultures.

A working group will report to SAC after examining the Garnaut education recommendations in detail. But some initiatives can be implemented immediately.

We will immediately invite submissions for the establishment of a Korean Studies Centre and provide core funding of \$300,000 in 1990 and \$200,000 for three years thereafter.

We will immediately fund twelve scholarships for high quality postgraduate research students from Korea and Taiwan.

We will also fund teacher development and exchange programs to upgrade the skills of Australians through foreign country exposure, to upgrade the skills of qualified native speakers of Asian languages, and to fund teacher and research exchanges.

Ross Garnaut's third set of recommendations is on infrastructure policy - particularly focussing on the waterfront, coastal shipping, civil aviation and electricity generation.

He recommends opportunities for private investment in ports to increase competition in the provision of these services. My Government would welcome such investment. Indeed, our historic moves to enterprise employment will facilitate removal of a hitherto significant practical impediment.

The productivity, reliability, efficiency and price of operations on the Australian waterfront will be monitored, as Garnaut recommends, to ensure substantial progress towards international levels over the next three years.

We have already established the Waterfront Industry Reform Authority for this purpose and appropriate measurement indicators are being developed.

We will ensure continued progress is made - and that the public is kept informed.

Ross Garnaut recommends that producers should be given access to bulk carriers of raw materials on the Australian coast at international costs.

Through consensus we have already achieved:

- . a decline in average crew levels from 33 in 1983 to 21 by 1992 - as I remind you again, down to the average OECD level;
- . investment in new more efficient ships; and
- . the acceptance in specific circumstances of foreign ships carrying goods along the coast.

These are important changes. With assistance from these moves we will, in responding to the Garnaut Report, address particularly the needs of new raw material projects that will be reliant on coastal shipping.

The report identifies "the systemic and physical infrastructure of Australian civil aviation" as the greatest single barrier to expansion in international tourism.

It proposes the introduction of differentiated and flexible pricing of landing slots, private investment in the establishment of new airport facilities, acceptance of higher levels of foreign investment in civil aviation, acceptance of mergers to facilitate improvement in domestic and international links and more flexible allocation of landing rights, including designation of additional Australian carriers.

Clearly we have very substantially liberalised this industry with the ending, next October, of the two airline agreement and the deregulation of air charter policy. These changes will provide a further boost to tourism.

The SAC will shortly consider the traffic management regime at Kingsford Smith Airport, and will examine the appropriateness of flexible pricing of landing slots at other airports.

My colleague Ralph Willis, the Minister for Transport and Communications, this year announced a considerably more liberal approach to the negotiation of international aviation rights.

But more can be done. Private capital can play a greater role in providing additional airport facilities. And we do need to ensure that international aviation competition and domestic linkages fully serve the interests of tourism and related industries.

A SAC working group will consider all these issues, looking initially at flexible pricing of landing slots and the scope for additional private investment, before moving to the other, more complex issues.

On electricity generation, Garnaut recommends further improvements following receipt of the Industry Commission's report. He suggests State Governments accept private power generation and transmission through the public grid to large-scale users.

My Government would welcome this, and will pursue the idea with State Governments now and, if more still needs to be done, after we receive the Industry Commission's Report.

The Industry Commission's reports on both electricity and rail are seen as vital by my Government. We will ensure action follows.

And let me add this: I do not necessarily regard our recent over-riding of existing differing States' legislation on the handling and transport of grain as a precedent for all occasions: but there should be no doubt that we will act as required to ensure that recommendations vital to this nation's future are implemented.

A fourth set of recommendations concerns foreign investment.

The general thrust of the report supports my Government's liberalisation of, and our commitment to a non-discriminatory policy in, foreign investment.

Australia now has one of the most liberal foreign investment systems in the world.

Ross Garnaut points to a degree of fear, apprehension and prejudice about foreign investment from Northern Asia.

Better and more widely disseminated data on foreign investment are needed to allay what I believe are unjustified fears.

I have therefore asked my colleague, Treasurer Paul Keating, to report to SAC on how best to achieve this using, for example, the resources of the Australian Bureau of Statistics.

Fifth, the report recommends that environmental standards to be met by new processing projects be established well in advance. It has also pointed to the desirability of agreement between the Commonwealth and the States on the standards to apply and the importance of consulting conservation and other interest groups in the process. I strongly endorse these recommendations.

I have already announced in my Statement on the Environment that the Commonwealth will be examining approval processes with a view to improving both definition and timeliness. In one particularly contentious area, pulp mills, we are moving to draw up guidelines which should be announced in the next few months after close consultation with State Governments, industry and conservation groups.

When they are in place, proponents of new mills will know from the start what is expected of them.

Within a year or so I hope we can have guidelines in place in all major industries.

There is no desire on the part of this Government to frustrate development, and once guidelines reflect community views, uncertainty and conflict will subside. We will certainly be devoting our considerable energies to this effort.

And let me make this point. My Government does not accept the simplistic dichotomy - development or the protection of the environment. We must have both. And our record shows that we can have both. Under my Government:

- . the rate of economic growth has been above the OECD average, and twice the rate of that under our conservative predecessors;

- . employment growth has been twice the OECD average and five times faster than our predecessors; and, at the same time
- . the World Heritage Bureau has said that no country has done more to advance world heritage values than Australia.

Finally, the report claims there is a weakness in Canberra's analytic capacity in the management of our bilateral relations with the countries of Northeast Asia. It calls for the provision of additional resources both in Canberra and in some overseas posts. We accept this recommendation in principle and will move quickly to address it.

Presently, a Standing Committee of Deputy Secretaries is responsible for overseeing Australia's bilateral economic relationship with China.

This Committee is now to be extended in membership to include my own Department of Prime Minister and Cabinet, and Treasury, and its focus is to be enlarged to include all of Northeast Asia.

The Committee will be asked to examine and report to SAC on the best means of implementing the recommendations on improved analytic capacity, and on international policy matters.

Of course the Tiananmen events reversed in the most brutal way the developments of the previous decade, which had made China a more open and indeed more prosperous society, and a country with which Australia had very close relations.

China remains unquestionably one of the key countries in the Asia-Pacific and it is in all our interests that the decade of openness and reform is not lost irretrievably to the Chinese people or to the region.

As you know, the Government took certain actions in relation to China following the massacre and will be reviewing the relationship again in the near future.

Ladies and gentlemen

It has to be understood that for all the progress we have made - for all the opportunities that await us in Northeast Asia if we get our policy responses right - we could still see it all unravel.

The achievement of creating an open, international economy is not happening by accident.

Success is not inevitable. The opportunities offered by Asia-Pacific economic dynamism will not just fall into our laps. The Australian community will not automatically accept change of the magnitude required.

It all needs deliberate policy design; careful negotiation of consensus; leadership; vision and guts.

And it needs constant and tireless community education of which this Report is a striking example.

Without these factors our progress can disappear just as fast as it has been made - with traumatic and devastating results.

I am not going to engage in overly partisan analysis in this forum. But it is essential to say clearly, so that everyone understands the issue at stake : no political party deserves the trust of the Australian people unless it can demonstrate it has been able to commence, can continue, and will complete this vital process.

The implication of this assertion speaks for itself: only Labor has the past record, present policies and the future strategy and commitment to reverse the accumulation of neglect from previous conservative Governments, and to avoid the threatened chaos of the current conservative Opposition.

Ladies and gentlemen

The Garnaut Report paints a picture of opportunity in the 1990s that Australia must and, if we are careful, will realise.

I was impressed by a comment published recently to the effect that the Garnaut Report's message that we should enmesh ourselves in Northeast Asia would, if implemented, represent the most substantial reorientation of Australian attitudes since Curtin turned to the United States in 1941.

I don't disagree. But I make this important point.

In 1941, Australia's new relationship with the US did not mean the end of our traditional British links expressed in our demography, political traditions and practices and culture.

Similarly, enmeshment with Northeast Asia will not take place at the expense of our existing and valued economic, political, and cultural ties with Europe, North America or other parts of the Asia-Pacific region.

Indeed one very important element of Garnaut's analysis is that we carry into our relations with Northeast Asia many positive and influential assets.

These include - I name only a few of the most important - our proud, vigorous and deeply entrenched democratic traditions, our standards of human rights, our multicultural tolerance, our principles of free trade unionism.

Such assets will, in Garnaut's words, provide opportunities to influence the shape of our relations in ways that are favourable to our own interests.

Far from being in some way at risk in our relationship with Northeast Asia, such assets will provide the basis for a richer and broader relationship, not restricted to dollar values, not caught up solely in balance sheets, not reduced purely to traded goods but capable of enhancing the intangible, yet supremely important, concepts of quality of life and cultural understanding.

And let me say this in conclusion. I have long regarded Ross Garnaut as a great Australian. With this report you have, I believe Ross, placed all Australians considerably in your debt.
