



PRIME MINISTER

EMBARGOED: Against Delivery

**SPEECH BY THE PRIME MINISTER, THE HON P.J. KEATING, MP
ASIA SOCIETY, NEW YORK, 15 SEPTEMBER 1993**

"AUSTRALIA, THE UNITED STATES AND THE NEW ASIA"

It is five years since I addressed members of this distinguished institution. They have been five years of extraordinary, momentous change. The end of the Cold War has greatly increased the level of uncertainty in the world, but as events in Washington on Monday this week dramatically showed, it has also greatly increased the level of possibility. The new world order now emerging is rich with possibilities which could scarcely be imagined a decade ago.

Within the brief span of the last five years some of the deepest and most intractable issues of the post-war world have been put on a path to resolution.

The Soviet Union has ceased to exist, Germany has been reunited, and we saw on Monday the beginnings of what may be a permanent peace settlement in the Middle East.

For the first time since 1945, the United States is now free to concentrate on new challenges in new regions.

My address today concerns one such possibility. I mean the opportunity presented by the economic advancement of East Asia - the "new Asia" of my title today. For the centre of gravity in world affairs is moving inexorably from the Atlantic to the Pacific: and it is in the interests of both our countries to recognise the promise the region holds.

In recent years and particularly in the twenty months I have been Prime Minister a substantial - even a preponderant - amount of the Australian Government's energies have been directed in varying degrees towards equipping Australia for the Asia-Pacific era which lies ahead. Equipping it economically, of course, but also as a society and as a nation.

In the five years since I last addressed this institution we have taken the reform of the Australian economy much further, to a point now where it is as competitive as any in the OECD, and in certain essential respects, such as the rate of company taxation and incentives for research and development, comparable to the Asian economies.

There have been profound changes in the shape and orientation of the Australian economy; namely, towards sophisticated manufacturing, towards exports, towards Asia. Equally profound have been the changes to the business and industrial culture necessary to initiate and sustain the pace of reform.

But in making these essential changes, the Australian Government has been determined to ensure that social policy keeps up with economic change.

We take the view that change comes more effectively and more rapidly when it comes cooperatively and with a substantial degree of social consensus. For example, we won industrial peace, a much more creative industrial culture, lower inflation and much else through an Accord between trade unions and the Government.

We have always taken the view that a more competitive economy should not and does not mean the sacrifice of the social fabric. On the contrary, we have stuck fast to basic social democratic principles because we believe it is in them that the faith of the Australian people lies, and on that faith our progress depends.

We recognise that the re-orientation of Australia towards Asia gives rise to a certain amount of apprehension among Australians accustomed to old European ties and attitudes. But we go to Asia without compromising our heritage or our beliefs or our democracy. In fact, we need to make them stronger.

As a result of policies which might be generically described by the word "inclusive", we emerged from the 1980s with an economy much more competitive and much better placed to take advantage of our opportunities: and with a first class national health system, and a social safety net the equal of any in the world, and the most advanced legislation effecting rights and opportunities for women, and a richly pluralist and remarkably peaceful society.

It is in this broad context that some other recent initiatives might be seen. We have opened up debate on the prospect of an Australian Federal Republic because it would seem to be singularly more appropriate to the reality of our position in the world, and our national identity and aspirations.

We are in the process of legislating a new deal for indigenous Australians because justice is long overdue to them and because, by delivering justice, we will raise the level of national unity and national self-esteem.

We are continuing to actively encourage the development of a multicultural Australia because, as the United States well knows, there is enormous strength in diversity.

We are conscious of the fact that the reality of Australia does not accord with the image of Australia projected abroad. Fond as we are of our national legend and our native fauna, we are fonder still of our social and democratic institutions and values.

You will understand how irritating it can be if you imagine the United States defined exclusively by coyotes.

By way of a corrective I might quote an article in the Sydney Morning Herald earlier this year written by one of your own - Susan Gaetner, a resident of Manhattan. She had gone to Sydney in 1991 believing, she said, that it was a place populated by "rubes and yahoos". She found, I am pleased to say that the standards of urban chic were at least as high as her home town's, the health care and social programs "light years ahead" and the quality of life "stunningly, resoundingly, overwhelmingly better."

I imagine New Yorkers would find this hard to believe. More is the pity, so would many Australians. But I should hope it makes the point - Australia is an advanced social democracy and a complex and modern - even post modern - society.

The recession hit us hard in Australia and we have a major unemployment problem which, in the face of world recession or feeble recovery, all our efforts so far have failed to solve. But the reinforcements to the social fabric we have made have served us very well in binding Australian society together and making it possible to maintain the momentum of change and seize the opportunities which the world, and particularly the region, offers.

Ladies and gentlemen

In Australia, we understood very well when President Clinton emphasised in last year's campaign that foreign and domestic policy are now two sides of the same coin.

These days, trade policy most decidedly is high policy. And there is no more important focus for trade policy than East Asia.

Right round the Western Pacific we watched with great interest as, step by step, Mr Clinton began to swing America's interests towards the Pacific.

We saw early on that he recognised the link between the US budget deficit and its poor trade performance through the eighties. For the nations of the Western Pacific, Mr Clinton's deficit reduction package meant he was acknowledging that America's trade problems cannot be solved without change at home.

Then we saw that despite the clamour against it, he reaffirmed American commitment to the Blair House accord on world agricultural trade. A little while later, he committed his administration to a speedy conclusion of the Uruguay Round and sought a renewed fast track authority from Congress to complete the round.

For the nations of the Western Pacific, which have depended for their growth on an open world trading system, Mr Clinton's commitment to the Uruguay Round was good news indeed.

Month by month Mr Clinton continued to confound the sceptics on our side of the Pacific, and confirmed that the US was on the right track.

His American University speech at the end of February recognised the centrality of Asia and of APEC to a strategy based on economic growth, increasing international competitiveness, and stronger trade.

For the Western Pacific, Mr Clinton passed a crucial test when he successfully sought an extension of China's MFN status, conditional on human rights tests.

In June, he began to reveal a long awaited package of proposals for enhancing US exports to Japan - and we were relieved to find that the US would not seek preferential access, or trade quotas.

Finally in July, in his Waseda University speech in Japan, Mr Clinton proposed to convene the first meeting of the leaders of the economies of the Asia-Pacific region.

In my discussions with the President yesterday we shared our visions of the future course of the Asia-Pacific economic community.

The discussions confirmed my belief that the Clinton Administration has found a path out of the puzzling uncertainties of the late eighties.

The path out is trade, and it goes west across the Pacific.

Now in all this I believe Mr Clinton was recognising an unmistakable economic imperative.

South-East Asia is now in the throes of an industrial revolution which is transforming the ASEAN economies from primary producers to major manufacturing centres.

Manufacturing now accounts for over one-third of their GDP and around 60 per cent of their exports.

Importantly for Australia, our near neighbour, Indonesia, has achieved 25 years of sustained economic development and transition from one of the world's poorest countries to one standing on the threshold of the middle-income group.

With the fourth largest population in the world, it is now launched on a strong growth path.

For the first time in its history, Indonesia has become a significant industrial exporter.

At the same time, radical reform of the Chinese economy has unleashed powerful forces of growth and industrialisation.

I visited China in June this year and, particularly in Shanghai, was impressed by the resurgence of entrepreneurial drive and skill.

The IMF and others have recently recalculated China's GNP on a purchasing-power basis.

These calculations suggest that it might be more realistic to regard China's GNP as three or four times the official figure, making China already the world's third biggest economy after the United States and Japan.

Each of the East Asian economies has started from a different base, with different resources and different economic circumstances.

But there are common threads running through each story of success: the determined pursuit of economic growth and social progress, and a willingness to embrace domestic economic reform and outward-looking trade and investment policies.

In the wake of sustained economic growth, East Asian societies are being transformed.

Across diverse cultures, there is a common commitment to modernisation.

There is a high premium on education and technical training which relate to modern economic sectors, as well as an international orientation in government and business.

Demand for quality consumer goods, fashion, entertainment, leisure and travel is steadily growing.

In developing East Asian economies - including those of South-East Asia - a substantial middle class is rapidly emerging.

This has political as well as economic consequences.

East Asian middle classes value political stability, but they also seek greater participation in the political process.

Circumstances vary from country to country, but there is a welcome overall trend towards political pluralism and liberalisation.

Indeed, judging by the examples of Korea and Taiwan, one could argue persuasively that, beyond a certain point, dynamic and internationally-oriented economic growth almost certainly requires progressive steps towards political liberalisation and democracy.

In the cases of China and Vietnam, the question of how long economic liberalisation can be insulated from political reform is a fundamental question for the future of both countries.

I think it should be emphasised to an Asia Society audience that the United States is benefiting enormously from the economic dynamic in East Asia and stands to benefit more as time goes on.

The two sides of the Pacific now form an integrated market of two billion people, accounting for half the world's production and half the world's trade.

It is a market, a production zone, an economic community which for a decade has grown more rapidly than any other region of the world, and which is likely to continue to grow at twice the rate of Europe.

We often think of the European Community as a model of economic integration. Or we think of the economic relationship between the United States, Canada and Mexico as an example of a naturally integrated group.

Certainly these groups are closely integrated, but it is a surprising fact that the economies of North America and the Western Pacific are actually more closely integrated, without a regional trade agreement, than are the economies of Europe or of North America, with a regional trade agreement.

Many Americans think of East Asia primarily as a source of imports competing with US industry here or in third-country markets.

And certainly, it is true that the US market remains vitally important for most East Asian economies.

But over the last decade East Asia, Australia and New Zealand have become an increasingly important market for US exports.

Less than a decade ago, more than one third of Western Pacific exports came to the United States.

Today the proportion is less than one quarter.

And over the same time-frame, the proportion of US exports which go to the Western Pacific has risen to well over one quarter, on a par with those to the NAFTA partners and well ahead of exports to the EC.

Since the mid-eighties the trend rate of growth of US exports to the Western Pacific has been three times the rate of growth of Western Pacific exports to the United States.

In other words, East Asia is no longer just a production zone for exports to the United States - it is also a thriving and rapidly growing importer of US imports.

I believe that the Western Pacific today is your key market - and it is not too much to say that the success of the United States in the international economy, its success as an exporter, its success in regaining its confidence and belief in itself, depends on its continuing success in Western Pacific markets.

Australia's trade orientation towards East Asia is even more pronounced.

Around 60 per cent of our exports now go to East Asia.

Indeed, without any formal arrangements, there is already closer integration between the economies of North America, East Asia and Oceania than between either the members of the EC or the members of NAFTA.

Given the enormous stakes involved on both sides of the Pacific, it seems to me important that we think creatively about what sort of policy and institutional framework will best maintain and strengthen the highly valuable economic linkages which now operate between East Asia, Oceania and North America.

In my discussions with President Clinton in Washington yesterday, we were in ready agreement that the Asia-Pacific Economic Cooperation or APEC process has the potential to play a decisive role in this regard.

APEC is already showing great promise as a forum for promoting economic cooperation on a basis of open regionalism among the main economies of the Asia-Pacific region.

APEC's members are the United States, Canada, Japan, Korea, China, Taiwan, Hong Kong, the six ASEAN countries, Australia and New Zealand.

But to succeed, this process will also require close attention to other aspects of trans-Pacific relations outside the economic realm.

We need to recognise, for example, that the favourable strategic circumstances and promising economic outlook that now obtain in East Asia are partly the result of enlightened US strategic policy towards the region since the Second World War.

Judging by the quality of the discussion I was privileged to have yesterday with the President of the United States, I am sure your country is sufficiently imaginative and big-hearted to meet this challenge.

I left my meetings in Washington with a deeper conviction that Mr Clinton is putting the United States on the right path.

A path west to the pacific.

But at the same time as he resolved to rebuild America's competitiveness, he has signalled his determination to rebuild American society as well.

I was encouraged by his commitment to the Asia-Pacific economic community. And I was struck with the unanimity with which the President, his Cabinet and the Congressional leadership in both Houses and both Parties expressed their conviction that the US should assign a higher priority to its trading relations with the Western Pacific and the Asia-Pacific economic community.

May I also say that I appreciated the Administration's high regard for its relationship with my own country.

We also discussed the importance of the Uruguay Round and the need to have a result by the middle of December - a schedule which in the view of both my Government and the Clinton Administration leaves no room at all for reopening the Blair House accord on agriculture.

Ladies and gentlemen

Tomorrow I go from New York to London: from a country which scarcely notices the presence of an Australian Prime Minister to one whose popular press is driven to an orgy of insults by his impending arrival. There it was recently written that I was among other things a "barbarian" - which in the London tabloids is pretty well a synonym for Australian - that I was bent on taking Australia towards "some hellish Japanese future": that the only solution to we Australians was to "shoot them all".

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I expect it will get quite abusive when I arrive.

I must say my sympathies are fundamentally with the British people who have to endure a press like this every day.

Of course Britain remains an important trading partner, a firm friend, and, as with the United States, a source of much in the way of culture and institutions that we value.

The British Foreign Secretary, Douglas Hurd, has made this very point to the Australian media in the past day or so.

Certainly, the historical ties between Britain and Australia are unbreakable. But the game changed a long time ago. In pursuing the possibilities which the Asia-Pacific holds Australia has simply recognised necessity, which is to say - the future.

Thank you.