



PRIME MINISTER

TRANSCRIPT OF QUESTION AND ANSWER SESSION WITH THE PRIME MINISTER, THE HON. P. J. KEATING, M.P., FOLLOWING ADDRESS TO THE ASIA SOCIETY, NEW YORK, U.S.A. 15 SEPTEMBER, 1993

J: Sir, the Australian dollar has been taking quite a beating lately against other major currencies and the RBA has continued to come in to prop it up. Do you plan to continue with this policy or do you just want to let it float downward? I didn't mean that as an insult at all because a lot of currencies float up and down.

PM: Well, there was a time when I took the questions of screen jockeys seriously but fortunately for me that time has passed. And I can say that seeking from any Government definitive statements about its currency is rather expecting too much. The Australian dollar has been, for a long period of time, governed by the market's view about commodity prices and our dependency on commodities. I might say that that dependency is now weakening substantially as the pattern of Australian exports has changed to elaborately transformed manufactures, manufactures in general and services.

So as a country we are much less dependent today on commodities than in the past. But the currency has always been commodity driven. Now you will know that commodity prices are now down to the levels that we last saw in 1986, which was a very low level by historical standards and gold prices have been down recently, too. And I think that is what's probably brought the attention of the market - as indeed the United States dollar has strengthened somewhat. Now, these things run along but the notion that the Government is trying to make a rate is, I think, wrong. We've never sought to do that. But we don't want to see our currency unnecessarily knocked about by individual transactions and we take appropriate steps to deal with that. But that's all the world of difference than trying to make a rate, which I don't think we've ever sought to do.

At any rate, that fact is that there is a lot of movement in currencies these days. It's the way economies equilibrate to the changes in the terms of trade. It's one of the values in floating exchange rates and you can see by the fixed exchange rate

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systems of Europe how unreal they become when the strains and stresses really start. So, I'm afraid if you want to be making guesses about the A dollar you're going to have to use your professional judgement rather than rely on me, at lunch.

J: Mr Prime Minister you mentioned earlier that Australia's competitive position has improved considerably and that it is equal to many in your region. How do you see this reflected in the external balance in the merchandise trade, picture and so forth? Could you elaborate? Has this been reflected in shifts in your external trade balances?

PM: It certainly has. And I think it is reflected most obviously in our general trade performance and our capacity to service our debt. Not so many years ago, three or four years ago - we needed about 22 or 23 percent of our export proceeds to service our debt. That's now down to about fourteen percent. And that's in part because of a better export performance on our part. And we are very competitive; we're about 25 percent more competitive than just a couple of years ago. We're vastly more competitive than a decade ago.

We now have very low inflation, with underlying inflation running at around 2 percent and we have a competitive exchange rate. We have a high profit share in the economy - the profit share in GDP is around about the peak of the late 1980s already. And all of this, I think, is good for investment, good for production, good for exports and good for employment and good for jobs. So, we've now got very competitive macro-economics settings. And in our tax system, for instance, we've now got a corporate rate competitive with Asia, at 33 percent. We've got no, there is no double taxation of dividends in Australia. We've got very large tax concessions for research and development, for accelerated depreciation of plant and equipment.

So, wherever you look whether it's the tax system or it is inflation or it is interest rates or exchange rates or profits, we are now very, very competitive. And I think that's showing in our exports and particularly in the changed culture towards Asia which has taken place across the sectors of Australian manufacturing and Australian commerce - where there's a real sea change in the view of Australian executives on how they approach export markets and with what fervour and commitment they approach them.

J: Mr Prime Minister, unemployment levels in the world have been getting a great deal of attention. As you mentioned during the presentation, the Australian unemployment level is what you would consider very high. Do you view this as a structural problem and what are some of the specific steps that the Government is taking to alleviate the problem and can it be solved in the future?

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PM: Well, it's partly structural and it's partly cyclical. Part of it is from the economic cycle of the recession; part of it's from the churning that's taking place in our industrial structure. And we're trying to take people and retrain them and put them back into other sectors of employment and we are directing labour market programs at the long term unemployed. That is, those people who are unemployed for 12 months or more - to give them work experience, training and a job subsidy to get them back into the workforce, to get their self esteem up, to give them the opportunity of getting some specialisations back and some skills back so that they can maintain their place. And we have a very high success rate with the unemployed people who are contacted by our labour market programs.

But aggregate unemployment is still high at around 11 percent although, I might add, with a very high participation rate. That is, the number of people - the proportion of the population in the workforce is very high in Australia. If we were comparing for instance the participation rate in the United States with Australia, were we to have your participation rate we'd have unemployment down to around 6 or 7 percent. But with our participation rate, unemployment is at around 11 (percent).

Now, that means that many people are looking for work and the only way of finding it, in the end, will be economic growth. And we've got the Australian economy growing again at about 3 percent and we're hoping for more growth in the coming year and we see growth principally as a way of providing the jobs. But, we are now in a productivity laden recovery. This is not an employment laden recovery as the 1983 recovery was. This is a productivity laden recovery. And so we're getting more output from fewer people, which I guess means that we've got to have more output again, if we are to take up the number of jobs that we want to see be taken up.

As well as that, the Government has commissioned a task force to look at novel ways in which we might deal with unemployment - systemic changes which might help us deal with this problem. While the cycle of the economy is changing, while cyclical unemployment is declining and while we are still dealing with the churning which has come through the change to our industrial structures from the old Australia to the modern industrial Australia. This will be, I think, an important report for the Government to see in which ways we can actually do something novel - in world terms - to help the unemployed.

But, above all else, our commitment will be to growth and employment through growth by letting the Australian economy grow when we see the opportunities to let it grow. We won't be artificially constraining its growth because we do have an incomes policy to rely upon, as well as monetary policy, so we are able to let the

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economy grow faster than most other comparable countries. That, we hope, will be a longer term answer to unemployment.

J: Mr Prime Minister, in your remarks you emphasise the consensual nature of politics in Australia. And yet on the most recent Budget it seems that things may have been going something amiss. I'm wondering if you could take a moment or two just to clarify the Government's position on the Budget and what we might expect in the weeks ahead?

PM: Well, the first thing I would say to you is we're pretty confident the Budget will pass through the Parliament. No other Australian Budget hasn't and we think this one will. The reason that this one is an issue is because the conservative parties in Australia have decided to vote against, to obstruct the Budget's passage because they are miffed about losing, having lost the last election. Now, that's not much of a reason for voting against a Budget, but that is their reason.

And that has meant that the Government has had to go down the highways and byways of our second chamber to ensure the Budget's passage and that's why it is in the debate. This is not a policy which can be sustained by the conservative parties in Australia. The Government convincingly won the election six months ago and therefore it has a very firm mandate for its policies. And the notion that the opposing party can upset it is not one that normally has currency in Australian public life.

Now the traditions are different in the United States. Generally, here the Republicans don't normally pitch in and help a Democratic administration carry budgetary measures as we've seen in the United States again recently. But in our country the Government is made in the House of Representatives and the money legislation of the country is made there and the convention is that it has passage through our upper house. The conservative parties in Australia, this time, are breaking that convention which only means we've got to spend more time about the Budget's passage. But pass the Budget will, which then has the happy effect for me of making the conservative parties even more irrelevant than they are now.

J: Mr Keating, I just wonder in terms of the Olympic choice - whether it's Sydney or Beijing - what change would you expect Sydney winning the Olympic bid would have on your economic forecasts?

PM: I don't know that it would change our forecasts all that much but it would obviously be a good thing for Australia to host an Olympics. Sydney is well capable of hosting an Olympics. We've got quite unique facilities, I think, in world terms not just in national terms for this bid. And were we to win it it would be a

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good thing, I think for the southern hemisphere and for the Pacific in the year 2000 - let alone for Australia and Sydney in particular. And I think it would be a good opportunity for us to advertise the Australian nation, its unique identity and its success, its social cohesion, its role in the world. All these things, I think, are opportunities opened up to the host of the Olympic Games.

So, I think that's the tangible benefit from it rather than the impetus to growth in any particular year. No doubt there would be some impetus to growth in the year 2000 were we to secure the Olympic Games but I don't think that is something which we need to rely upon to build our economic fortunes. It's just one of those little pluses that come through along the way. More important, I think, for the country's culture and its view - the view of it in the world - than it is for any particular economic effect.

PM: Well, I think I have exhausted you all. Oh no, there are a few punters over here..

J: Mr Prime Minister, could you elaborate a bit on which countries in Asia you might see priority in trade with - you referred to the continent but any countries in particular?

PM: Well the great bulk of our trade, the largest most preponderant parcel of our trade is with Japan. And I was just speaking briefly at the table here earlier about our trade with Japan which is very large. U.S.-Japan two way trade is about \$100 billion but Australia-Japan two way trade is about \$20 billion. We have a fifth of the trade the United States has but the United States economy is twenty times larger than ours. Which gives you some indication of the level of trade between Australia and Japan. That's the principal trade sinew of South East Asia and around that we've also other trading possibilities and opportunities. Among them, and most notable I suppose is Korea and more latterly, China and the ASEAN group of countries. So, it is probably - the growth opportunities across them all - the growth opportunities are probably greater amongst the ASEAN countries of Thailand, Indo-China and China itself - given that we already have a high level of trade with Japan and Korea. But in those two countries the trade is continuing to change to sophisticate away from bulk traded commodities onto manufactures and elaborately transformed goods. And that, I hope, will continue to grow but there are enormous growth opportunities in these other economies which we intend to take up as well.

The important cultural change that has taken place in Australia is the attitude of Australian business to exports. Instead of regarding exports as an exportable surplus from some domestic production program, companies are now going in for exports as a primary business. And you're seeing this in food, in food processing

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where we've seen very large acquisition of brand names and the building of quite large capital structures to export into South East Asia. We're seeing it in telecommunications, we're seeing it in all sorts of elaborately transformed sectors. And this is a sea change, as I said earlier, which we've never had before. So, the cultural shift in Australia has well and truly been made. It's now simply a matter of driving it home and maintaining the competitiveness - hard won competitiveness - we now have so that we can drive it home.

But we need the structures to do it in and that's where APEC becomes important. We need the trade liberalising agenda of APEC to give us the opportunities which we otherwise wouldn't have - the very same opportunities which will make all of the economies of the region so much wealthier where the velocity of trade can be so much greater. So, while we have distinct and important trading opportunities we want to get the institutional structures right so that we can not only exploit the very high levels of growth which are currently obtained in this part of the world, but even higher levels of growth with even less impediment to trade and investment so that we can all benefit from a higher velocity of growth in incomes through the region. So, really, I think, from Australia's point of view we are now in the game in earnest. And we're now earnestly trying to change the institutional structure so that we remain in the game in perpetuity.

J: Mr Prime Minister, to what extent do you think that the inflationary conditions in China and the large current account deficit that China has - to what extent are these a threat to trade generally in the Pacific basin and to Australia specifically?

PM: I don't think they're a threat to trade generally. I think China will continue to grow at a healthy pace. Maybe not growing as fast as it is now, obviously, with unsustainable levels of investment. And China is now seeking ways of curbing that activity - while lacking the sophisticated instruments that exist in an economy like the United States or Australia. They don't have a readily available monetary system to use. Fiscal policy doesn't have the sharpness it has in the United States or Australia so there's a much heavier reliance upon administrative means of slowing up the Chinese economy - while at the same time developing these instruments. So, I would think that yes, we will see China slow down and that will cause some gnashing of teeth.

But it will still grow at a clip, I think, and it is not simply China's growth though upon which Australia's trade opportunities in the area depend - or the United States' trade opportunities in the area - though obviously they are enhanced by China's growth. And the income growth, that's the important thing I think, the income growth within China itself. But, yes they are in a period of very high growth, inflation has taken off, they know this is a bad thing for them and they are

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doing all they can, I think, to bring it back. And we should assist them where we can in doing that so that their growth is sustainable and that they're in there playing a long term role on a sustainable basis and not find themselves in, simply, cycles which are unsustainable and basically sour their investment sectors and those who invest in them. So, I think China is going to be a very strong player into the future and I don't think we ought to believe that the current slowdown is going to be - immeasurably change the nature of their economic transition.

J: Mr Keating, I'm an Australian exporter in the fashion industry, new into the United States. I was just wondering, are you intending to increase the frequency of payments under the Export Market Development Grant.

PM: We've put some changes through in the Budget, I think, to enhance the Export Market Development Grant Scheme. One of the things which a study we had, by the McKinsey company, of 700 dynamic exporting companies or the most dynamic exporting companies in Australia... One of the things that survey found was that export market development assistance was of material assistance in helping businesses develop new markets in various parts of the world.

And so in the recent Budget we have increased funding for export market development assistance and from memory, one of those things is more frequent payment. In other words, you don't have to wait until the end of the year to get a reimbursement of your expenditure - which I think is the point of your question. I think you'll find a perusal of the Budget papers will reveal that to you, if I'm not mistaken.

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