



72/64A

PRIME MINISTER

FOURTH NATIONAL CONFERENCE OF THE INSTITUTE OF DIRECTORS

SYDNEY, N.S.W.

21 JUNE 1972

Speech by the Prime Minister, the Rt. Hon. William McMahon,
CH, MP.

Mr Chairman, Gentlemen :

It is a pleasure to be the guest of the Institute tonight, to have the opportunity of talking to so many distinguished visitors, and to such a representative gathering of leaders of Australian business and industry.

I would have liked to have spoken to you in a freewheeling fashion about the recent visit I have made overseas, because not only was it a memorable one for me, but I do believe - in the presence of some of those people whose Governments were good enough to look after me whilst I was away - that they did show their great liking for this country and and spoke of what they saw to be the wonderful prospects in front of us.

But I think you can take it for granted that wherever I went they showed a disposition to look to Australia for assistance, they looked to Australia for comradeship and for friendship and they had implicit trust in the belief that this country will, in their time of need, come to their help and come to their assistance.

So for that reason, I wanted to speak to you in the presence of so many distinguished guests, and say something to you. Instead - not in a freewheeling, because as Prime Minister that is impossible under certain circumstances - and so therefore I will keep pretty closely to a text I have already prepared.

I think most of you will know that I have been visiting three of our near neighbours in South-East Asia - first of all Djakarta, then Singapore and later on Kuala Lumpur. Naturally the events of that journey are very much in my mind, particularly as I have here on my left-hand side a colleague whom I have learnt to respect and who I think is just as interested in not only the South Pacific countries but also in the countries to the countries to the North, and who realises that the our destinies - of New Zealand and ourselves -- our greatest friend is New Zealand -- and these other countries are inextricably bound up and that their destinies will inevitably affect what happens in our own countries.

And, too, it was an appropriate time for me to be there because only recently President Nixon had completed his visits to Peking and to Moscow. Also, there is no doubt at all of the changes that are occurring, economically, socially and politically not only in the countries that I visited but indeed in the whole of South East Asia and the Western Pacific as well.

- 2 -

Japan - and I say this, Mr Saito in your presence - as you know, has emerged as a very great power and I think in the not too distant future, you will see its political influence expanding, and particularly will see a greater attempt at rapprochement with its nearest and big neighbour immediately to the West.

Britain, of course, will be going into the Common Market quite soon and that must have an impact on us of the size and of the duration that for the moment we cannot foretell.

And, of course, there are also problems of our own stability and growth.

South East Asia

These all give us, I believe, a very significant role to play in the South East Asian and Pacific region. I hope therefore you will bear with me if I mention some points of importance as they affect Australia and our relations with our Asian friends. And then I would like to refer more particularly to trade and investment -- and in truth, this is exactly what I want to speak to you about tonight.

I went to Indonesia, Singapore and Malaysia as Prime Minister of Australia because our relationships there have a direct bearing on our defence and security arrangements and on our economic activities.

I had no domestic arguments to export, and I think this is one of the reasons that wherever I went and it was learnt that I was not going to engage in political activities whilst I was overseas, that we were able to talk so frankly and so freely together while our relationships not only improved but I doubt whether they could have been very much better.

I wanted simply to do what I could to strengthen our friendships and increase our understandings on these vital matters, and I believe the mission did exactly that. This came across very strongly in my talks with the Heads of Government in the three countries, with their administrations, and I believe with the people themselves.

Because you do get an impression -- and I speak of only one capital and that was Djakarta...it was unbelievable for a person like myself who hadn't been a Prime Minister for very long, to drive through throngs of children, probably as many as twenty or thirty thousand, they knowing you are Australian and ready to cheer for the fact that you have come from this wonderful country of ours.

The official and private talks just could not have been freer and friendlier, nor more outspoken or have taken us more into their confidence. Wherever we went, the press, radio and television gave us a fair go, and I can impress that upon you.

I had what I felt was a good meeting of minds with President Soeharto of Indonesia, Prime Minister Lee Kuan Yew of Singapore and Prime Minister Tun Razak of Malaysia. They, too - and I

can confirm this - they expressed appreciation of what we were doing and of our great interest in their countries. They wanted that interest to develop and they kept impressing on me their desirability that Australian businessmen should go there and should take part in the development of their own companies and of the companies to which they were going.

I believe that the visit has helped to strengthen the security of Australia and generally opened up new prospects for closer relationships in the future in all manner of ways. It was a most encouraging and stimulating experience for me and all the members of my party.

There was between Indonesia and us a complete understanding of how each is contributing to better security and to better prospects for economic growth in South-East Asia. We are co-operating very closely.

In Singapore and Malaysia we again found a complete accord at the highest levels - and in their own words, there were no issues between us because we are of the same mind. And that, too, was a worthwhile contribution to our own security and the security of the region.

Now, Mr Chairman, may I elaborate a little on my discussions in South-East Asia on trade and investment. I had a senior member of the Department of Trade and Industry with me, and we had most constructive discussions in all three countries we visited. They ranged over a wide area - finance and banking, trade and development, aid, particularly economic aid and defence aid as well.

And what struck me most in all these discussions was the differences that there were in the various stages of development. What they are concerned to do in each of the countries is to create new employment opportunities for their people. This means they seek to raise living standards progressively in the years ahead.

Unfortunately, and I say this with deep feeling, their resources of investment capital and foreign exchange - particularly in Indonesia and Malaysia - are far too limited, and they look to us, not only for support, but understanding as well.

Increasingly, they regard Australia as a growing market for their exports and as a source of capital funds. Trade between the countries in the region has been growing over recent years and undoubtedly will continue to expand in the future.

Investment

Many Australian firms have already taken advantage of the special incentives provided by these countries for foreign investment and have established operations in the South-East Asian area. I believe that Australia has reached a stage in its economic development which allows us to adopt a much more liberal attitude towards overseas investment by Australian firms. This was the subject of a statement by my colleague, the Treasurer, in the Parliament in February.

At that time, Mr Snedden said :-

"Direct investment, accompanied by exports of technical know-how and managerial skills which give the Australian enterprise a role in the conduct of an overseas venture, is an important means by which Australia can contribute to development and growth of other countries. This is particularly true of countries in the Pacific and South-East Asian region."

I fully endorse his view. And I can assure you from my personal contacts how much Australian investment is welcomed in the region.

In Indonesia, I unveiled the foundation stone for a new factory which will produce glass containers, probably between 20 to 25 per cent of their total requirements. The major partner was an Australian company, Australian Consolidated Industries.

And if I can say this, one of the disappointing moments I had going through Djakarta was to see branch banking systems of the great American banks such as Chase Manhattan and First National City and banks from the Continent and other places. But to my surprise, even to my anguish, I found there wasn't a single Australian branch bank there. But now we are moving to establish representative banks, and Indonesia has closed off the prospect of further branch banking systems being established there.

In Singapore, I visited a very successful Australian factory - Besley Pike - at the Jurong Industrial Estate.

These factories are tangible examples of the role of private Australian capital in the economic development of the area.

Arrangements have already been put in hand which I believe will lead to even better trade relations and economic co-operation. The Deputy Prime Minister and Minister for Trade and Industry, Doug Anthony, will visit Indonesia early in July for important trade talks including the review of our bilateral trade agreement.

Similarly, we have advised the Malaysian authorities of our readiness to review our trade agreement with that country when they are ready to do so. In both cases, the reviews would be aimed at ensuring that the trade agreements reflect the current nature of our trading relationships and cater for the high level of interest in trade with, and investment in, Indonesia and Malaysia.

I have also said that we are prepared to consider additions to the list of items already covered by our system of tariff preferences for developing countries.

It is now generally recognised that it is essential to establish a closer relationship between our respective business leaders. An Australian/Indonesian Business Co-operation Committee has already been established. It is very encouraging to note the large number of senior Australian businessmen who have joined together to promote this organisation.

I have suggested, in conversation with Tun Razak, that a similar arrangement be made with Malaysia, and I hope that Australian businessmen will become interested in it. When I raised this question with the Malaysian Finance Minister, he mentioned they were so anxious to get our investment and the possibility of getting a far greater degree of investment there, that they would use their Capital Development Council as the vehicle for developing links with Australian manufacturers.

And whilst I am not in a position where I would be able to commit either the Malaysian Government or the Capital Investment Council itself, I do believe that if Australian business interests were prepared to have discussions with that Investment Council or the management of that Investment Council, they would see they are willing to provide incentives for investment opportunities there.

The private sector advisory panel of the Council might, as Tun Razak and the Minister for finance thought, be an appropriate mechanism by which you could, if you wished to, make contact and try and ensure that that contact was successful.

Now, gentlemen, it is one thing for governments to express a desire for closer economic relationships. However, at the end of the day, the ultimate decisions on individual investment projects or commercial transactions must be taken by the businessmen themselves.

The main purpose of these Committees will be to enable business leaders in our respective countries to meet and review problems and prospects relating to mutual trade and investment.

There were a number of other matters raised in the course of our discussions. These will be pursued further through normal diplomatic channels.

I am wholly satisfied of the scope and need for greater Australian participation in economic development in South-East Asia. I think I can assure you that there is sincere goodwill towards Australia and also that the regard for individual Australians is very high.

I have, too, taken this problem up with both the Treasury itself and the Reserve Bank and we will shortly be - as we have recently produced a paper on international investment - we will very shortly be putting down a paper in the House that will deal with this problem of investment by Australians overseas.

Now, Mr Chairman, these activities, of course, have to be looked at in the context of our overall trade and investment position, and I will conclude with some general observations about that.

Trade

In all external economic transactions, the balance of payments is maintaining a very strong position with record performances developing in a number of areas in the current year. In the first nine months of 1971/72, exports rose more than \$400 million above the level in the corresponding period of 1970/71. The more recent figures for May indicate that this trend has been accelerating. For 1971/72 as a whole, exports could well be about \$4,800 million.

I remember when I was Treasurer and we got to a figure of somewhere about \$2,400 million, we thought it was an occasion for celebration,

Now this was achieved despite some slowdown in the growth of exports of mining products (turning to Mr Saito)...I won't continue because he knows the answer and you know the answer too. I believe myself it is only a temporary slowdown in our exports to one of the great countries to our north.

Firmer prices overseas for a number of rural products have led to a substantial growth of rural exports, and exports of manufacturers have grown very rapidly this year. In contrast, imports, reflecting the slower rate of growth in the level of domestic activity, have risen much less than exports.

In consequence, the balance of trade surplus is currently running at more than double the level at this time last year, and looks like achieving a record level around \$1,000 million for 1971/72. On the invisibles transactions, the net deficit has continued to increase, but at a slower rate than in recent years. This improvement, combined with the larger trade surplus, has made a significant reduction in the current account deficit, which may be less than \$400 million in 1971/72 as a whole. This is the smallest current account deficit for almost a decade.

.... /7

If I can go back a little, I can well remember in the time of the Menzies Government, when we used to think of having current account deficits - not of \$400 million - but we would talk of them in the thousands and probably the two thousands.

So what it does indicate to me is the ability of the Australian, not only to produce, but to get out and sell, and to get out and compete and to win in international company.

But I believe when I read of recent exploits of the Broken Hill Pty. Co. Ltd., in winning the contracts it did in the European markets, again it confirmed my belief in the Australian manufacturer and the Australian producer, and their ability to do the job when they have the opportunity and the will to do so.

We have also had a very strong increase in capital inflow. This brings with it certain problems which we are examining. The overall balance of payments outcome in 1971/72 will thus be one of substantial surplus, perhaps of the order of \$1,500 million. This surplus on external account places us well to meet the various challenges and uncertainties which lie ahead.

In particular, the international monetary situation, although it has settled down in recent months from the turmoil of the second half of 1971, still has some way to go before we can have complete confidence in its viability. Discussions on possible long term changes in the system could begin later this year.

If I can now say this. In some of the visits we have had in recent weeks, particularly by Governor Connally, and some of the talks I have had with my colleagues, as for example, with my colleagues, the New Zealanders, have all indicated to me how desirable it is that the sooner we can come to grips with this problem of foreign exchanges to try and get them more stable, the better it will be for us. And I do hope, Mr Prime Minister, and I express this in your presence, that you will be thinking of entering the OECD and Working Party No. 3, and when that happens, if there has to be a group of 20, that you will join with us in seeing that multilateral exchanges and multilateral trade are for the benefit of our two countries.

So discussions on possible long-term changes in the system will go on and I hope we can start very soon. As well, a very important round of multilateral trade negotiations is scheduled to begin in 1973, equivalent to the Kennedy Round negotiations which are so beneficial to world trade. On the domestic front a review of the tariff is in progress.

These developments in the monetary and trade fields could have important implications for our external economic position.

In the shorter term, the Government has in recent months acted to stimulate the level of demand and economic activity. Nevertheless, on present indications we can expect the balance of payments to continue in strong surplus in 1972/73.

These large and continuing balance of payments surpluses can bring their own problems, just as balance of payments deficits can. The Government will therefore be watching closely developments on the external account in the months ahead.

If I can just make an interpolation to what I have just said, fortunately for us now as the development of the work of the Government Statistician, and the private and Commonwealth banking system, we can now identify in a way that we have never been able to do not only the source but the first use of the funds that are coming to Australia. And this I can tell you, the very largest proportion of the money that is coming in is for direct investment, and is therefore making its contribution to the growth and development of this community.

I am confident, therefore, that by maintaining the flexibility which has been a characteristic of our economic management, we can deal with new situations as they arise, and justify the confidence which I believe is now beginning to flow quite strongly from the business community.

Our neighbours in South-East Asia made it clear to me that they regard Australia as a country making a considerable contribution to stability in the region. We must continue to justify that confidence by our performance at home and by our readiness to explore new prospects abroad.

I hope everyone of you as a businessman here will have the opportunity to visit each of the countries I visited. You will get a reception of a kind that you will find unexpected but generous and warm. But above all things I believe that if you do go, and you go with enthusiasm, you will find that not only can you do much to get expansion of trade on behalf of your own companies, but also you will be able to make your contribution to inter-country development prospects, inter-country trade developments, and by this means, you can make the four of us much more wealthy, and our prospects much brighter than I gather, Sir Robert, was conveyed to you by some of the speakers this morning, and later on this afternoon..
