



PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
OPENING OF THE NATIONAL CONFERENCE OF THE
'GROUP OF 100'
SYDNEY - 1 OCTOBER 1987**

David Say
Ladies and Gentlemen

The advent of the Group of 100 onto the national scene is to be welcomed by all who care for Australia's economic health.

The organisations which make up this Group - be they privately or publicly owned - represent a major component of the nation's economic activity.

So it is a pleasure to address and to open this first national conference of the Group of 100. I look forward to hearing of the results of your deliberations not only at this conference but at future conferences.

One of the hallmarks of my Government has been its determination to seek the active contribution of all groups in the community - including business groups such as this - to the task of Government decision-making. We have never believed that Government has a monopoly either of experience or of wisdom.

As David Say, your President, said in his introductory comments, we must seek a cooperative approach to the resolution of the serious economic problems we face.

The virtue of such cooperation lies ultimately in its recognition of the fact of our mutual dependence - and this is particularly true in an economy of relatively small size like Australia.

I want to come later to the details of Australia's domestic economic situation. Let me say at the outset however that the successes we as a nation have so far enjoyed in meeting the considerable economic challenges we face have been attributable in no small measure to our recognition of our interdependence and to our capacity to cooperate.

Through working together we have advanced the interests not only of individual groups, but of the community as a whole.

The recognition of our mutual dependence is just as important on the international scene.

I had the pleasure in January of delivering the keynote address to the World Economic Forum at Davos. David Say, I know, was among the audience. My message on that occasion was that unless nations recognised their complete interdependence they risked returning to the economic insanities of the pre-1939 years - with the added danger that in the nuclear age the consequences of conflict would be truly horrendous.

The debt crisis and the commodity price slump demonstrate that the poverty or prosperity of individual nations are questions that concern us all.

I told the audience at Davos that successful leadership today required two closely related commitments. Though my prescriptions were directed chiefly at governments they have considerable relevance to the business sector.

First, Governments must show their willingness to restructure their own economies, with the way being led by the developed countries.

Second, Governments must be committed to the development of free and fair international trade.

Good domestic policy and good international policy are inseparable.

The implications for business are also clear. Without the cooperation of business, without its willingness to take advantage of the opportunities which open trade and economic reconstruction can bring, the best efforts of governments will be ineffective.

I believe we in Australia are being successful in making the appropriate domestic adjustments. Although this enormously complex task is far from complete, we are already beginning to achieve an improved economic performance.

Our successful approach has also lent credibility to our efforts in international forums to turn back the tide of protectionism which threatens not only the trade in agricultural products, in which we have an immediate stake, but also the whole trading system on which the prosperity of the world depends.

If I may refer once more to my Davos address, I said that nations which seek to achieve domestic political goals through distorting the international trading framework are deluding and hurting themselves while they are also hurting others.

I will shortly be travelling overseas and I will make use of the opportunity presented by this trip to reinforce this basic argument in a number of forums.

In San Diego I will be addressing the American-Australian Chamber of Commerce on my concern about the prospect for Australian exports in view of the growing protectionist sentiment in the United States.

At the Commonwealth Heads of Government meeting in Vancouver I will be discussing trade reform with Heads of Government from a diverse range of Commonwealth countries, many of whom share Australia's concern about the world trade system. Indeed I have been asked to lead off the CHOGM debate on world economic issues.

In Geneva, I will be addressing GATT members on the progress of the agricultural protection initiative I launched at Davos.

Later in the year, at a valuable regional forum to which I have been invited, I will discuss the future of Australia's political and economic links, including trade, with the crucial Pacific Rim economies.

In the US, at CHOGM, in Europe, and in our own region, our message is consistent and it is forceful.

Restrictive and distorting trading practices - those already implemented and those in prospect - ultimately serve no-one's interests. All countries would gain from a move towards fairer competition in international markets.

A good many of the impediments to fair trade have been prompted by hasty and negative responses to bilateral concerns. I will be stressing that a more positive and beneficial response is available through multilateral solutions to such problems.

Australia has consistently stressed and worked towards this goal in the context of the new MTN round. We took a leading role in establishing the Cairns Group as a new third force in negotiations, which led at Punta del Este to agriculture being put for the first time on the MTN agenda as a matter of priority.

GATT is crucially concerned with questions of fair and open world trade and has championed this cause throughout its 40 year existence. The shortcomings of the world trading system today should not in my view be blamed on GATT. Rather they have resulted from the selfish approach of some of its members.

Australia is a small country and therefore has limited power in the world economy. Forums such as those I will be addressing provide us with great opportunities to put our view on the need for reform of the world trading system, and to marshal those forces with similar interests and objectives.

But I will be emphasising in these forums that multilateral trade reform is not enough. Domestic economies must also be restructured.

As far as Australia is concerned, the domestic economy has seen a more fundamental reorientation over the last few years than it has in any time since its emergence from the Second World War.

Australia had been too complacent in the post-war period. We relied on primary commodity exports, we protected an inward looking and inefficient manufacturing base, and we ignored the potential of our neighbours in the Western Pacific Rim.

The fragility of such an approach was highlighted in 1985 and 1986 by the massive collapse in our terms of trade.

A sustained effort is needed to reduce our reliance on the production and export of primary commodities. The community - business, unions and the Government - must work together to reconstruct the Australian economy to take us in prosperity to the end of the century and beyond.

This task must build on the strengths of the Australian economy: our skilled workforce; our rich natural resource base; our well developed infrastructure; our political stability; and our proximity to the world's most dynamic growth area, the Western Pacific Rim.

It has been to realise the full potential of these strengths that my Government has directed its economic decision-making since our election in March 1983.

We are steadily eliminating protection, encouraging manufacturers to innovate and to compete on the world market. We have striven to ensure, with the cooperation of the trade union movement, that unit labor costs move broadly in line with those of our principal trading partners. We are encouraging newer ways, smarter ways, cheaper ways, more efficient ways, of earning our national income.

Just as important, we are also providing the broad macro-economic framework which is necessary. In addition to wages moderation it has been crucial to deliver sustained restraint in budgetary policy and appropriately tight monetary policy.

We have sought to emulate private sector efficiency improvements, streamlining the public service to parallel more closely the performance of efficient private sector bureaucracies. Moreover we are looking closely at the operations of our major public enterprises to see how their performance can be improved.

Last May, the Treasurer delivered an Economic Statement which contained the toughest expenditure cutting exercise in 30 years. This, and the tax reform policies which we adopted in our second term, allowed us to all but balance the Budget for 1987-88.

This is a substantial achievement. We have trimmed \$10,000 million from the prospective Budget deficit which we inherited from our predecessors in just five Budgets. It compares very favourably indeed with the recent fiscal performance of other developed economies.

The broad Budget aggregates suggest a fiscal climate in the years ahead which will complement the task of restructuring.

- . We have cut real outlays for the second year in a row - the first time this has been achieved in 35 years.
- . Decisions already taken on recurrent outlays will produce cuts next year which are at least as large as this year.
- . Tax will be a significantly lower share of GDP this year than last; and
- . For the first time in 35 years the Commonwealth will this year be retiring both domestic and overseas debt each to the tune of about \$1000 million.

I cannot stress enough that the Budget outcome is not a one-off or chance occurrence. It is a further step along the consistent path of responsible macro-economic management that my Government has followed since March 1983. Largely as a result, interest rates are beginning to fall.

For those of you who operate in the corporate environment and face the disciplines of the market, our approach offers further confirmation that the Government's macro-economic policy is predictable and stable. This is one of the most important contributions a Government can make to the economy, allowing business to plan investment decisions with confidence.

As a measure of the extent to which Australia is successfully meeting the challenge of reconstruction, we are now beginning to witness a turnaround in our current account and trading performance. The current account deficit has declined from 6 per cent of GDP in 1985-86 to 5 per cent last year, and we expect a further fall to 4 per cent in 1987-88.

But to get a real impression of the adjustment which has occurred already, one needs to look beyond these aggregates. In 1984-85, Australia had a goods and services deficit in constant prices of 2.6 per cent of GDP. Last year we turned that into a surplus of 2.4 per cent and this year we expect this surplus to increase to 4 per cent.

Particularly gratifying is the large increase in manufacturing exports, reflecting the improved competitiveness of our manufacturing sector.

This growth has been so strong that exports from the manufacturing and tourism sectors now account for virtually one quarter of exports, compared to only one fifth just one year ago.

Although we have a long way to go to solve our external problems, it is clear that we have turned the corner.

Ladies and gentlemen,

David Say was kind enough to give me advance notice of what he had in mind to say in his introductory comments. Let me at this point, David, take issue with one of your remarks in your kind introduction.

You mentioned that Australia has two major disadvantages - the small size of its market and its remoteness from the major markets of the US and Europe.

Of course both of those descriptions are true. But they are nothing like the impediments that they once were - as so many companies, especially as many of the smaller companies which I have visited, are only too willing to attest.

The reality is that Australian manufacturing is now more competitive abroad than it has been since at least 1973.

Even John Elliott has been moved to comment: "The ending of a fixed exchange rate saw the dollar fall to a level where tremendous opportunities have opened up in new manufacturing."

At a time when freight rates are so sharply compressed, it is hard to imagine a time when Australia has had a better opportunity to break out of the confines of its small market and take on the mass markets of Europe and the USA, where our competitive gain has been particularly strong.

However, even that proposition bears further analysis - essentially because of its Atlantic-centred view of the world.

There has been a clear shift of economic power over recent years towards the Pacific basin. If there is one statistic which encapsulates that fact it is that in 1984, for the first time, the value of trade across the Pacific exceeded that across the Atlantic.

The countries of the Pacific Rim include the world's two major economic powers - the United States and what must become an increasingly import-oriented Japan. They also include one of the world's most rapidly growing and populous countries - China - and an array of developing countries of diverse size but growing economic strength.

Each of these countries is undergoing profound economic and, in many cases, social change. They are changes which over time can provide Australian business with outstanding opportunities for trade and growth.

The Government is doing what it can to provide the right environment for business at home, to encourage other nations to speed up the necessary process of economic reconstruction which they have to undertake, and to open previously insulated economies to imports from Australia.

But in the end it will come down to the foresight and the entrepreneurship of Australian business to determine how well we perform.

It is clear that profitable opportunities will increasingly become available for those bold enough to seek them out.

Yet it will require hard work to exploit those opportunities. Specific projects have to be identified. Distribution outlets have to be established where none now exist and a marketing strategy has to be developed and promoted - all of which require the investment of management talent and financial resources.

The commitment required is not transitory and it needs to involve the whole of the enterprise.

It will take time to build up trade in new areas and we will have to learn to cope with the vagaries of floating exchange rates and the other hazards of trading.

That is not just a task for management. It is one for workers also. We simply have to be prepared to look at how we do things now, to see what changes are necessary to meet today's environment and to make those changes.

Moreover that is a task which we need to address constantly. If we cannot remain adaptable we consign ourselves to the class of the also-rans.

Let me say that I believe that attitudes are changing and that Australians have understood the message of the past couple of years.

As I implied earlier I see it in the actions of medium and small companies across the breadth of Australia who are now exporting, perhaps for the first time, and who are developing new products and new markets.

I see it in the quiet revolution taking place in the attitudes of trade unions to training and retraining, to the reform of work and management practices, and to the need for continued wages moderation.

I see it in their willingness to acknowledge the need for change and to work with management to achieve it.

I see it also in the willingness of companies to undertake research and development, assisted by the most generous tax concessions in the world. And I see it in the lift in investment which has begun, especially investment for trade related activities.

It has been clear since our re-election on July 11 that while we are not going to relax our efforts on the macro-economic plane to restructure the economy we will be concentrating closely in our third term of office on the search for efficiencies in the micro-economy.

We have identified a full agenda of reform in a number of areas, including transport and aviation; communications; government-owned business enterprises; education and training; and industry policy, including assistance, taxation and regulation.

Let me say a little today about developments in the last of these areas, industry policy.

The next three years will see a continuation of Labor's efforts to lower gradually the levels of industry protection.

We cannot, as a nation, hope to be internationally competitive if we persist in insulating key industries from import competition. Indeed, as I said at Davos, the overly protective approach of the past is a primary cause of the difficulties facing our manufacturing sector today.

The tax system clearly will play a vital role in the restructuring process.

Tax reform, as you know, has been a major emphasis of the Government. We need to be sure, however, that the corporate tax system remains as efficient and as internationally competitive as possible.

This is why we have begun a review to identify options to cut the company tax rate through a sensible broadening of the company income tax base. This is in line with similar recent reforms in a number of major Western economies including the United States and Britain. Our objective is to ensure that Australian companies can compete on equal terms.

At this early stage I obviously cannot comment in detail about any specific changes. But I can assure you that any tax changes which flow from the review will be fair, fiscally responsible and aimed at increasing Australia's international competitiveness.

The Minister for Primary Industries and Energy, Mr Kerin, has recently announced a comprehensive review of Commonwealth assistance and development policy relating to the resources, energy, agricultural, fisheries and forestry industries. The review will reassess the direction and nature of assistance measures, the degree of regulation and disparities in the treatment of different industries.

One area of reform in which I am sure you are all interested is business regulation. During our second term we established mechanisms for reviewing regulations. The BRRU has made a major contribution to this work and is achieving results. Of particular interest to this group, companies and securities law is being reviewed in our third term of office.

Over recent years, business operations have changed greatly. Activities are taking on a much more national and international character - and their associated financial arrangements are becoming more complex.

The existing co-operative Companies and Securities Scheme has had difficulty in meeting these challenges. The scheme itself also has a number of inherent defects that must be addressed.

For these reasons the Government has authorised the Attorney-General, Mr Bowen, to develop a Commonwealth Companies and Securities Scheme to replace the co-operative scheme.

This scheme will be introduced only after full consultation with interested parties. Such consultation is already taking place through a Steering Committee set up by Mr Bowen. The task of this committee is to advise on the powers of the new Securities Commission and on any changes needed in regulations.

Ladies and gentlemen

The past few years have highlighted the structural weaknesses in the Australian economy and its vulnerability and inflexibility in responding to external shocks. The challenge of the next three years is to set about tackling those weaknesses, through both domestic and international policy tools.

At Davos, I emphasised that successful restructuring demands a fundamental change in performance and attitude both nationally and internationally. As such it is a task which individual countries and governments cannot successfully perform alone. We look to other nations, the business community and the unions to work with us in meeting this great national and international challenge.
