



## PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

**SPEECH BY THE PRIME MINISTER  
AUSTRALIAN-AMERICAN CHAMBER OF COMMERCE  
SAN DIEGO - 9 OCTOBER 1987**

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No-one tonight should be surprised to hear me say that I had somewhat mixed feelings when I saw the America's Cup on display in this hotel.

I don't want to take anything away from Dennis Conner's great sporting achievement in winning back the Cup. Dennis' comeback from 83 to 86, not to mention his long march from New York to San Diego, is one of the great sporting stories of our time.

But let me just say you should enjoy your time as guardians of the world's greatest yachting trophy, because I can assure you we will be doing our best to see the Cup comes home to Australia after the next challenge round!

At least San Diego's victory means that the America's Cup - which Australia and the United States had traditionally contested on the Atlantic Ocean, and which had an all-too-brief stay at Fremantle on the Indian Ocean - will be at last fought out between us on the Pacific.

Because for nearly two centuries, the relationship between Americans and Australians has been dominated by the opportunities and the perils presented by the Pacific Ocean.

Australia is preparing to celebrate next year the Bicentenary of the arrival of European settlers in Sydney in 1788.

It could hardly be more appropriate that the United States Government is contributing to those celebrations by, among other activities, helping to create in Sydney a National Maritime Museum.

From the earliest days of the colony at Port Jackson, American ships have been frequent and welcome visitors to our ports.

Before the construction of the Panama Canal and the trans-continental railway in the United States, it was at least as easy to travel from here to Sydney as it was to reach New York.

The Pacific Ocean was and remains a broad avenue for trade and travel and other exchanges between us of the most diverse kind.

And as the Second World War taught us all too clearly, the Pacific was and remains absolutely critical to the security of both our nations.

I had the pleasure of visiting the headquarters of the U.S. Pacific Surface Fleet this afternoon and recalling that it was San Diego that supported and supplied the US naval forces that fought and won those turning point battles of Midway and the Coral Sea.

Today, the Pacific region remains paramount in our relationship. Australia and the United States are part of the most dynamic economic region in the world - the Pacific Rim. In 1984, the value of trade across the Pacific surpassed for the first time trade across the Atlantic. The giants of Japan and China, and the increasingly powerful economies of Korea, Taiwan and the ASEAN countries are set to ensure the Pacific Rim will continue to exercise a huge influence in world economic affairs for at least the rest of this century.

So the Australian-American relationship can only prosper further if we take advantage of the opportunities presented to us by the growth in the Pacific Rim region.

Ours is a relationship which encompasses shared values, common foreign policy interests, intensive defence co-operation, crucial security commitments and commercial and economic linkages which are of great benefit to both countries.

It is a relationship not just between Governments but between peoples and private companies and organisations of many kinds.

It was to foster this increasingly strong and constructive relationship that the Australian-American Chamber of Commerce was established in San Diego last year.

As people with a close interest in the relationship between Australia and the United States, you will, I know, understand the extraordinary breadth and depth of that relationship.

These are not mere platitudes but the real characteristics of a vital and rich relationship. For the United States the relationship is, I suggest, as friendly and as reliable as any you have with any country anywhere in the world. It is something both sides can and do prize.

Australians and Americans see each other as equals and we see our bilateral relationship as one of equals. And we will continue to do so, because the aspiration for independence and equality is central to the psyches of Australia and the United States.

But, as is inevitable in relations between a super-power like yourselves, and a modest regional power like Australia, there is not always going to be an equality in the degree of attention we give to each other or to each other's interests.

We know that there is a great fund of goodwill for us here, and that there is a growing number of Americans who are visiting our country, who have seen its films, appreciated its artists, learned to love its special beauty and lifestyle.

Yet you are managing an alliance system embracing the Atlantic and the North and South Pacific and we cannot realistically expect that Australia, as one part of that system, will loom as large in American eyes as the United States does in Australian eyes.

But we do have the right to ask that our interests and our self-respect are not disregarded or slighted. We insist that Americans not only see us as good allies in the strategic sense but as a people whose economic well-being is important in itself and in the self-interest of the United States.

Successive Australian Governments - none with greater commitment than mine - have firmly committed themselves to the ANZUS alliance because they saw it as overwhelmingly to Australia's benefit to do so. In the case of the Hawke Government, we have successfully fought a political battle against people inside and outside our Party who honestly questioned it.

But let me put mutuality to one side for a moment and spell out in explicit, one-sided, terms, what Australia offers the United States as an ally.

We offer bipartisan, stable commitment to Western political values, and we do not cavil over the price that accompanies that commitment.

We offer the United States unqualified access to our ports on the Pacific and Indian Oceans, access which is tremendously important in sustaining the US global role.

We host US-Australian joint defence facilities, which are vital in the provision of early warning of ballistic missile attack on the United States and in monitoring arms control agreements with the Soviet Union. They are enormously important in maintaining stable strategic deterrence.

Our policies serve to support political stability in the South Pacific, a region whose tranquility cannot be assumed as easily as it could at the beginning of this decade. Our expulsion of a Libyan presence from Australia earlier this year, for example, was a valuable step in limiting the spread of undesirable influences in that part of the world.

We occupy second place in the world as a cash buyer of US defence equipment, important for industries in places like California and not without its impact on your balance of payments.

I suggest that no single ally, anywhere else in the world, offers as much to the United States as Australia does in strategic terms.

It is very much in the self-interest of the United States that Australians should not be given cause to conclude that they are taken for granted. We do not want to feel that we are seen as first-class allies but second-class friends.

Ladies and gentlemen

This is an important element of the background for the economic issues which I want principally to address today.

The post-war period has seen the dramatic rebuilding of the German and Japanese economies and their emergence as major exporters; the formation of the European Economic Community and its gradual entanglement in the thickets of inefficient agricultural policy; and the emergence of major international debtors amongst the commodity exporting less developed nations.

This is not the place for a considered analysis of the causes of these complex developments.

What is important for our present purpose is that each of these developments has brought with it tensions as well as opportunities for the world's trading nations.

A particular source of tension has been the rapid build up of massive structural imbalances between the world's majors: the United States is now running a large current account deficit, with the counterpart surplus held by Germany and, particularly, Japan.

These imbalances have accumulated to the point where the United States, having been a net lender for most of the post-war period has recently become the world's largest debtor - and is adding to those debts apace.

There is a number of ways in which the world financial and trading systems can resolve these tensions. Some would do the job, but only by scaling back the world's collective attainable growth to accommodate the fears and prejudices which underlie protectionism. Other strategies would enhance world growth and maximise the opportunities open to individual communities.

My message to you today - as it has been consistently to all the international forums I have addressed on this issue - is that it is clearly in the interests of all of us for the world's major economies to opt for strategies of the latter kind.

The key to those strategies is the deliberate decision by those major economies, including the United States, to free up world trade rather than close it down.

That decision must be supported by and co-ordinated with an equally deliberate commitment by the major nations to make appropriate adjustments to their domestic economies.

I had the opportunity in January to deliver this message in the keynote address at a conference of world business and political leaders in Davos, Switzerland. My message on that occasion was about the virtues of a liberalisation of world trade - specifically, of agricultural trade.

Australian agricultural producers are among the most efficient in the world and yet we are finding ourselves squeezed out of our markets by producers whose export success is due less to their efficiency than to massive subsidisation by their Governments.

I told my audience at Davos that nations which endeavour to achieve domestic political goals through distorting the international trading framework are not only deluding and hurting themselves but hurting others as well.

I assure you that I am not seeking to single out the United States. Later this month I will be making this very clear when I return to Switzerland to address the members of GATT on this issue.

But Americans must realise that protectionism is in no-one's interests: not the interests of those would-be trading partners it excludes from trade, certainly, nor those of the protecting nations themselves.

For the importance of pursuing simultaneously good international policies and good domestic policies cannot be over emphasised.

One obvious link between international and domestic economic policy making is the need to match open trading policies with domestic policies promoting industrial competitiveness and flexibility.

An equally crucial link is that massive current account imbalances are matched by massive, and unsustainable, imbalances in the distribution of world saving.

The solution in the case of a country such as Japan which is saving "too much", is to raise domestic consumption and therefore imports.

Where there is a large current account deficit, such as in the United States, the need is to increase domestic saving and to cut back on the public sector's call on the available funds.

In realistic terms, therefore, the essential counterparts of external economic adjustment for a deficit country such as the US are internal measures to reduce the fiscal deficit.

This simple reality - that the solution to the world trading imbalances requires fundamental changes to domestic policy settings of all countries which are involved - has been acknowledged by the leaders of the world's major economies, including at the 1986 Tokyo Economic Summit and, more strongly, at the 1987 Venice Summit.

And it has to be acknowledged that there has been significant progress on these fronts in recent times.

In the case of Japan, policy has been eased to permit faster growth of domestic demand which in time will cut into their trade surplus. And in the United States, the Budget deficit in fiscal 87 is expected to come in at around 3 1/2 per cent of GDP compared to 5 per cent or so in recent years.

These are changes in the right direction.

They have occurred against the backdrop of quite massive changes in real exchange rates which are at once a sign of the extent of the underlying problem and a most powerful instrument for reconstruction.

Since its peak in early 1985, your currency has fallen in real terms by about one-third against both its trade weighted index and the yen.

These falls set up two quite different sets of forces.

The initial effect, paradoxically, is to make the problem seem worse. This has certainly happened in both the United States and Japan.

But this has camouflaged the underlying improvements which have begun to occur in the trading position of both countries. In Japan, exports have fallen and imports have risen in real terms. As a result, the Japanese real surplus on goods and services, expressed as a proportion of GDP, is now roughly half the average of 1985.

In the US the improvement in the underlying trading position has been less dramatic, but it has also begun. The real deficit on goods and services peaked at 4.3 per cent of GDP in the September quarter of 1986. This June quarter, less than a year later, it was virtually a percentage point lower.

Clearly, the job for both countries is far from complete. The task still ahead is a large one which will require consistent, patient effort.

My point is that the challenge now, for the US and the other major economies, is to sustain the momentum of adjustment and not arrest it by inappropriate policies which limit trade; or which postpone essential fiscal adjustment; or which reduce the flexibility of domestic industries and consumers to take advantage of the new opportunities which are opening up.

I am fully aware of the difficulties inherent in my prescriptions.

However, I am not advancing this solution to you as part of an academic theory. I am speaking as a practising politician who is familiar with the real political constraints that can prevent or delay or distort domestic adjustment.

For Australia has had to confront the same economic choices as confront the US - and it is my proud boast that we are confronting them successfully.

When my Government came to office we in Australia were faced with a prospective federal fiscal deficit amounting to 5 per cent of GDP. In five Budgets we have cut that to zero.

Across all levels of government the public sector's call on saving - at about 2.5 per cent of GDP this year - has been cut to just over a third of its prospective 1983-84 peak.

The current account deficit peaked at 6 per cent of GDP in 1985-86. By this year we expect it to have fallen by one-third to 4 per cent.

In our case, also, that improvement has occurred despite a slump in our exchange rate and terms of trade which initially masked the underlying improvement. In real terms our goods and services deficit will have improved this financial year by some 4 1/2 per cent of GDP in just three years.

With business investment expected to comprise the fastest growing element of domestic demand this year Australia is well positioned to keep the momentum going.

My Government is determined to continue delivering the necessary fiscal, monetary and wages strategies.

Moreover we have been determined to co-ordinate those policies with an open trading strategy and with policies which boost the flexibility and productivity of our domestic industries.

We have reduced protection, reduced regulation, encouraged foreign investment on fair terms, promoted innovation, reformed our industrial structures and public sector and encouraged increased reform of work and management practices.

Our reason for doing so is realistic self interest.

It reflects a recognition that if Australia does not adopt such strategies our people can only be the poorer.

Further it reflects a recognition that if the world trading system does not adopt such strategies all peoples, collectively, can only be the poorer.

This has been the lesson of our post-war years.

It is a lesson which we ignore at our peril.

Because if all parties to the world trading system - rich and poor alike - do not perceive that fair solutions are being found to the world's trading and debt problems, there is an obvious risk that political tensions will escalate.

As I said at Davos, we must avoid anything resembling a return to the economic insanities of pre-1939. The world paid a heavy price in World War 2 for its incapacity to read and resolve the emerging economic autarky of the 20's and 30's. Horrendous as that price was, it would be as nothing compared to the consequences of conflict in this nuclear age.

For those of us in the more developed nations it is particularly important to recognise that we cannot hope to settle our differences "in club" - at the expense of the developing countries.

And, just as validly, from the perspective of one of the smaller developed countries, Australia could not view with equanimity a solution arrived at between the largest industrialised countries which did not provide fair and open trading opportunities to countries such as ourselves.

I am not saying you have no reason for complaint. I can understand your objections to the barriers the United States faces to its exports, including exports of agricultural products, in certain markets.

But do not forget that we in Australia understand those problems because we share them. We encounter these problems not only with countries where you encounter them. We encounter them as well with the United States.

Sometimes, hearing of what has been said in your Congress - particularly in relation to the Trade Bill - I have the impression that people here think protectionism is something that only happens outside the United States and that the United States plays fair while no one else does. I am afraid that is far from the truth.

The protectionist measures contained in the Trade Bill can only damage American credibility as the United States approaches the negotiating table at the new GATT round.



The United States, for example, has put forward a bold plan for the elimination of agricultural protection for discussion in the new round. Yet the US Congress is currently considering legislation which would - to nominate only those areas which directly affect Australia - extend agricultural subsidies under the Export Enhancement Program, impose sugar quotas on a discriminatory basis and place quotas on lamb imports.

So while in the major forum of international trade negotiations - the GATT - the United States is seeking to take a role of leadership in the winding back of protection, the Congress is contemplating legislation that would have the effect of further constricting the free flow of trade.

Australians take heart from the fact that the Administration continues to resist where it can the surge in protectionism evident in the Congress over recent years.

As Prime Minister, I am especially heartened by the statement by President Reagan at the IMF that he would veto any protectionist legislation developed by Congress.

I welcome too the commitment by the U.S. and Canada, in the recent Free Trade Agreement, to work together in the Uruguay Round to eliminate subsidies which distort agricultural trade.

But I fear that the tide of protectionism in the US cannot be turned back by the Administration alone.

There appears to be a groundswell of opinion here that the appropriate means of correcting the American trade imbalance with Japan and other major countries is the erection of new and high barriers to imports from those countries and the use of America's influence to exert bilateral pressure to provide preferential access to US products.

We in Australia can only react with disappointment and displeasure to American steps which damage legitimate Australian interests.

In talking about this I want to be very careful not to be misunderstood. I am not talking about circumstances in which the United States beats Australia to some export contract in a third market where the United States has a commercial edge and where the importer decides between us on that basis. That is fair competition of the kind we all understand and respect.

Very different though is a situation where non-commercial factors distort that competition.

In view of the importance to Australia of continued competitive access to the Japanese market, we attach the greatest possible weight to assurances we have received from both your government and that of Japan that this distortion will not occur.

Even so, when we in Australia look at the tensions and pressures attendant upon the trade imbalances between the United States and other major trading countries, we have reason to fear these things.

We are apprehensive that adjustment will take place for the worst of reasons: not as part of efforts to restore fundamental competitiveness but through artificial subsidies and agreements to accommodate real or perceived political pressures.

Ladies and gentlemen

Nearly forty six years ago, my predecessor as Prime Minister of Australia - another Labor Prime Minister, John Curtin - made an historic declaration about the future of Australia.

In 1941, in the depths of wartime in the Pacific, Curtin dramatically reoriented Australia's strategic face away from Britain, which had hitherto been our principal ally, to the United States.

He said: "Without any inhibitions of any kind, I make it quite clear that Australia looks to America, free of any pangs as to our traditional links or kinship with the United Kingdom."

Those words - and the prompt, indeed the heroic, response they received from the American people - laid the basis for the successful defence of Australia and, ultimately, for the conclusion of the Pacific war.

Australians and Americans have never, I believe, forgotten that historic co-operation. I know Australians have never regretted the closer ties between our two nations which followed from that co-operation in the post-war era of peace and reconstruction.

You will understand from what I have said already that I have no doubts about the importance of a continued constructive relationship between the United States and Australia.

That is why I have been so concerned to stress the trade matters as I have done today.

I call attention to them not just because of the economic damage they threaten to my country, but because of the damage that could thereby be done to the overall relationship between us.

If they are not resolved successfully our wider relationship could only be hurt.

I urge instead the US to stand firmly for a fair and open international trading system, to reject unequivocally the false short-term comfort of protectionism in whatever guise, and to accept as unavoidable the requirements of economic adjustment both at an international and at a domestic level.

World trade problems are not going to be solved by a cycle of protection and retaliation. They must be solved by negotiation. The vehicle is at hand in the new round of Multilateral Trade Negotiations.

Even an economy as big as yours cannot dictate the terms of the outcome. But America will have huge influence. You can lead the way. You have shown that in the past.

In this great task, you need and deserve partners willing to act independently in pursuit of their own interest, but conscious always of wider Western interests, both strategic and economic.

Australia is such a friend, ally and partner.

Let neither of us, by things done or not done, jeopardise that great friendship, alliance and partnership.