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PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
PACIFIC BASIN ECONOMIC COUNCIL
SYDNEY - 25 MAY 1988**

It is always a pleasure to address groups of Australians or visitors to this country who are involved in advancing the interests of the Pacific Basin economies.

Because for Australia it is in the Pacific Basin that our future lies.

At the outset let me stress here as I have in many forums that Australians are determined to meet the challenge, and grasp the opportunities, that our involvement in this region presents to us.

I recall speaking to the national meeting of this Council four years ago in Sydney. On that occasion, having just returned from a visit to North-East and South-East Asia, I was able to outline ways in which Australia could become more integrated with the economies in that region.

More recently, last November, I had the honour of delivering the 1987 Singapore lecture in which I outlined my views about the prospects and the challenges for the Asia Pacific region.

So I was determined - even though I can only spend a very short time with you today - to accept your invitation to address this conference and to return to those important themes.

It is now somewhat commonplace to marvel at what one might call the Pacific miracle or to express wonderment about the so-called Pacific Century we are about to enter. The reconstruction of Japan after World War II; the emergence of the so called four tigers; the growing confidence of the ASEAN countries; and the reawakening of the potential giant of the region, China, are all powerful sources of optimism for the future of the region.

Without doubt the past twenty years have been vibrant and exciting ones in this region. Economic progress here has outstripped that of the rest of the world.

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To quote just one statistic: twenty years ago the region's GDP was equivalent to one-third of US GDP. Today it is over two thirds of what is of course, a much larger US economy.

Performance like that has not happened by accident.

For the most successful countries, it has been the result of deliberate, determined, outward-looking domestic policies, extraordinary economic adaptability and a sympathetic trading environment.

The result has been heavy emphasis on exporting, both within the region and to the more traditional markets of Europe.

It is no wonder, then, that the locus of world trade is shifting from the Atlantic to the Pacific.

I have made no secret of the optimism with which I contemplate the future of this region.

The Pacific economies have repeatedly demonstrated in the past the commitment and the flexibility they needed to gain the most from an export oriented strategy and to take advantage of the changing opportunities for growth through trade.

For example, in the wake of the slowdown in world growth in 1985, sharp policy adjustments were necessary in a number of Pacific economies, including Australia.

Commodity exporting countries like Australia proved especially vulnerable as growth in world trade slowed to 3 per cent in 1985 from the rate of nine per cent in 1984.

Their export volumes fell as a consequence of falling demand for their raw materials, and their terms of trade deteriorated dramatically.

What has been encouraging about the response of the Pacific nations - including Australia - has been their decision to pursue growth even more vigorously and adapt their macroeconomic, trade and industry policies to match the new economic conditions.

By contrast, the response of some of the main European countries to the economic slowdown - and their general reaction to the success enjoyed by developing countries had in penetrating their markets - was to turn inwards. They resorted to a combination of increased protectionism and inappropriate domestic policies with the result that smooth global industrial adjustment was obstructed.

I have taken the opportunity in many forums to point out the essential shortsightedness of those responses.

Closing down world trade would spell death to rapid economic progress. It would not safeguard but would jeopardise domestic industry and jobs.

And where the major economies have ignored the need to realign their fiscal policies to the changing patterns of world balance of payments imbalances they have simply accentuated the difficulties of adjustment.

Japan, the United States and the major European economies have particular roles to play in reversing this trend. These are well known and I will not rehearse them here, other than to state that their task requires nothing less than fundamental reform of their approaches to economic policy making and to protection policy.

What I want to stress here is that the task involves not just the majors.

All countries - particularly those in this region that have benefited so much from open trading policies in the past - need to keep their own domestic, trade and exchange rate policies under constant review.

The price of success is the obligation to cooperate fully in the task of keeping world trade and financial flows as open as possible.

Although it is easy and no doubt comfortable to extrapolate the successes of the past to the future, and to conclude that all is right with the region, I believe it would be shortsighted not to pause and reflect whether this is truly so.

For all the rhetoric about the dawning of the Pacific age we still need to be sure that we have the conditions in place that will allow such a vision to be realised.

As I said in my Singapore lecture last year,

"before we start counting the rewards that will flow to us in the Pacific Century, our task must be to ensure that the prediction actually comes true.

"The fact that things have gone so well for us in the recent past does not mean they will continue to go well."

I remain confident that the optimistic predictions can be achieved. But I believe we have more to do before we can actually participate in and reap the benefits of the Pacific Century.

Ladies and Gentlemen,

The reality is that once again we are entering a period of fundamental changes to the countries of the region.

The Pacific Basin has already demonstrated it is well equipped to deal with change.

Now however new avenues for complementary economic development are opening up. The challenge is to ensure those opportunities are exploited to the full.

Before coming to the areas in which I think more needs to be done let me first mention the hopeful signs that the task is already being addressed.

Japan has embarked on a program of restructuring. The sharply higher yen and the redirection of Japanese economic policy towards the stimulation of domestic demand has shifted the primary engine of growth away from net exports.

Indeed economic growth in Japan is now based entirely on domestic demand, with the external sector making a negative contribution to real growth in the order of one per cent in 1987.

As part of this restructuring process, Japan is shifting into higher technology products, creating another round of market opportunities for newly industrialised producers of medium technology items - especially those located in the region.

This in turn has opened new opportunities for some of the less developed countries in the region, including some ASEAN nations and the People's Republic of China. They have the challenge now to move into export areas in which the Newly Industrialising Countries generally enjoyed a comparative advantage previously.

Japan's accumulating wealth is also leading to increased foreign investment.

1986 saw a 225 per cent increase in the flow of investment funds from Japan to South Korea, a 155 per cent increase to Taiwan and a 158 per cent increase to Thailand.

Similarly the Newly Industrialising Countries have begun to invest abroad, reflecting their improving balance of payments positions and shifts in the pattern of comparative advantage.

For example Taiwan has continued to expand its involvement in the Philippines in the garment industry and in light manufacturing enterprises - two areas in which they formerly enjoyed a competitive edge but which have grown rapidly in the Philippines.

The extraordinary growth path of the Chinese economy, at a seemingly indefinite rate of 7 to 8 per cent a year, combined with China's emphasis on open growth strategies present the region with vast scope for increasing trade and investment links with China.

Australia attaches a high priority to its relations with China. Since Premier Zhao Ziyang's visit to Australia in 1983, the first by a Chinese head of government, our economic links with China have flourished.

In 1986-87 two-way trade exceeded \$2 billion, making China our fourth largest trading partner. Direct foreign investment by Australian firms in China is estimated to be \$A210 million. China's two largest foreign investment projects are located in Australia - the Mt Channar iron-ore project and Portland aluminium smelter.

Last month Chinese and Australian officials concluded an Investment Protection Agreement and we are also making progress towards a Double Taxation Agreement. These will make an important contribution to strengthening what is already a healthy investment relationship.

Ladies and Gentlemen,

These developments inspire a degree of optimism for the future of the region. They are developments, too, which present challenges and opportunities for Australia.

Australia is determined to play its part in the growth of the region and to derive the maximum possible benefit from the emerging opportunities.

For this purpose, I have decided to commission a major report of prospective economic developments in East Asia and their implications for Australia. It will be prepared by our former Ambassador to China, Dr Ross Garnaut. I expect that the results will be available to the Government in about a year.

But more broadly, we are deeply concerned about the restrictions that would be placed on our collective economic prospects by an upsurge in unfair trade practices.

Australia has had cause on a number of occasions to voice our concerns that access to markets be based on free and fair competition.

Both within the Pacific Basin and more generally we seek more assured access for, in particular, our beef, iron ore and coal.

Indeed only yesterday I found it necessary to write to Prime Minister Takeshita to express our concern about the admission by a senior member of the Japanese ruling party that administrative guidance has been used to treat American beef favourably, at Australia's expense.

The beef market, like others, needs to be based on non-discriminatory access.

We will continue to press such concerns - both regionally and in wider forums such as the GATT.

The task is urgent because the losses from delay are so large.

Put most simply, we need increasingly to be sure that investment and production decisions are based on a correct set of market signals - not ones so distorted by artificial barriers and supports as to be meaningless.

Australia and the world has paid a high and well documented price for the corruption of the markets for agricultural products.

The cost of administering programs of agricultural support in the European Community, US and Japan alone was estimated by the OECD to be \$US200 billion a year in the period 1984-86.

And that overlooks the more general economic and social losses incurred by efficient producer countries when they are denied adequate returns because of depressed prices and lost markets.

Neither we nor our region can afford to repeat that sorry example in other areas of trade.

However there is a prior and larger point.

A free trading system requires management policies which reflect underlying economic fundamentals in exchange rates.

Unless this most important of prices is capable of responding to changes in fundamentals the incentives for producers to respond to changing patterns of comparative advantage are muted indeed.

We must recognise it is equally unacceptable in a free trading system to allow a long-term under-valuation of one's currency as it is to maintain high tariffs or other trade barriers to agricultural or manufactured goods.

At the same time, the countries of the region cannot demand freer trade in goods without also accepting freer trade in services. Certainly this is a relatively new area for negotiation but it is one we must face. Those countries with reservations in this area should reflect on the opportunities that freer trade in goods has provided, before they close their minds to freer trade in services.

Australia recognises that the advantages of liberalised trade and appropriate exchange rate management policies flow not just to the region or the global economy as a whole, but ultimately, to ourselves.

Accordingly we have already put in place massive reforms to open up our economy to the energising impact of trade.

Tonight Paul Keating, John Button, and John Kerin will take that process further.

They will be announcing the most far reaching decisions ever taken to reform Australia's industry assistance policies.

Australia is taking the task of economic reconstruction seriously. We are doing so because we recognise the value to us of export-oriented growth and because we recognise that to participate in that game requires greater flexibility and adaptability. Our outdated regimes of industry assistance were simply incapable of delivering that.

Put simply, I believe our trading partners should apply similar remedies - because the short term costs they impose are ultimately outweighed by the benefits derived from a more innovative, more flexible industrial structure.

That has been the experience of this dynamically growing region in the past.

It is up to us - including to the members of the Pacific Basin Economic Council - to ensure that it remains the hallmark of our relationship in the future.
