



12

PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER OF AUSTRALIA
THE HON. R.J.L. HAWKE, AC MP
"AUSTRALIA : 1988 AND BEYOND"
CONFERENCE COSPONSORED BY THE ASIA SOCIETY AND THE
AMERICAN AUSTRALIAN ASSOCIATION
NEW YORK - 20 JUNE 1988

Ladies and Gentlemen,

An early edition of Baedeker - the great nineteenth century travel-guide - had this commonsense piece of advice for visitors to New York:

"Tips are of an appallingly high scale in this city and must by no means be omitted if efficient attention is desired. If, however, the traveller does not intend to visit again, the formality may be omitted."

Well I like New York and I have every intention of paying future visits here. So I shall follow Baedeker's advice and not omit the formality of offering a tip in the form of these after-dinner remarks.

It is good to be back in this great city, in the middle of Australia's Bicentennial year.

And it's good to be with the American Australian Association and the Asia Society which over the years have played a leading role in helping to develop American understanding of Australia's part of the world.

To men and women such as you, who follow world events closely as a matter of habit, the astonishing developments in Asia over the past quarter of a century will be familiar.

But it is still worth reminding ourselves of the enormous political and economic transformation the region has undergone in that period.

Where not so long ago, the region evoked in our minds images of conflict, division and vulnerability, the words which now come more readily to mind are stability, flexibility, confidence and growth.

Where twenty years ago the Western Pacific region's GDP was equivalent to one-third of America's, today it is over two thirds of what is of course, a much larger US economy.

The Pacific Rim now contains the world's fastest growing economies, which export and import across the Pacific more than the older economies trade across the Atlantic.

That kind of economic success hasn't happened by accident.

It has been the result of a deliberate determination to adopt outward-looking and extraordinarily adaptable domestic policies. And let me stress, an absolute prerequisite was a sympathetic international trading environment.

The expectation that this kind of success will continue indefinitely has led to confident predictions that the next century will be the "Pacific Century".

Certainly, the evidence for the Pacific Century scenario is easy to see : the strength and resilience of the Japanese economy, the flexibility and confidence of the newly industrialising nations, the steady political and economic emergence of China on the world scene, the re-establishment of democracy in the Philippines, the greater liberalisation in South Korea, the continued demonstration of regional cooperation by the ASEAN nations - not to mention the increasing regional enmeshment of the Australian economy.

But will this tremendous dynamism continue into the future?

Will those mutually reinforcing hallmarks, political stability and rising living standards, continue to benefit the millions of Asian citizens who now enjoy them?

I am essentially an optimist about the future of our region, so I answer each of these questions in the affirmative.

But I am also a realist and, as a practising politician, I am fully aware that rosy predictions are far from being self-fulfilling however reassuring they may be.

Last year I had the honor of delivering the Singapore Lecture. I said then that to maximise the benefits of continued economic growth implicit in the Pacific Century prediction, we must continue to work hard - we must continue to pursue with determination and diligence the outward-looking and adaptable policies which have been the source of the region's success so far.

2

We have much to be confident about but we should never allow that confidence to lapse into complacency.

On the basis of those general comments let me examine in more detail the principal developments in the region which will determine its nature as we enter the next century - particularly in the region's largest nation, China, and its largest economy, Japan.

I will keep to the end what I consider, with a justifiable sense of pride, to be the best news of all: that is, the dramatic way in which Australia over the past five years has reconstructed and reoriented itself to participate in the region's economic growth, and to provide - as well as the most politically stable - an excellent base for investors seeking to get involved in the myriad opportunities that the region offers.

Without doubt, some of the most exciting developments in the Western Pacific are now taking place in China.

China has emerged from the self-destructive madness of the Cultural Revolution to embark on a path of effective and rational modernisation and openness to the outside world.

Viewed from any angle - political, strategic, commercial, cultural - this is a truly momentous transition.

We in Australia have been following these events closely since the reform process was launched nearly ten years ago.

Indeed we have more than just followed them. We've been actively engaged in a major and consistent effort to involve Australia in the closest possible cooperation with China as it undertakes its reforms, an effort which the Chinese have fully reciprocated.

Through the strikingly successful rural reforms of the early 1980s, the urban reform decisions of 1984 and the Party Congress last year, the cumulative achievements are huge in scale and significance.

Consider these indicators:

- China's output has more than doubled since the reform process began.
- China is ahead of its announced target of quadrupling 1980 output by the end of the century.
- This is the third year in succession in which Chinese manufactured exports have grown by a third.
- Last year, China became the largest supplier of textiles to the United States.

4.

Over the last five years, I have been privileged to spend very many hours with key figures in the Chinese leadership. On that basis, my own assessment is that the process of reform is irreversible.

No-one, least of all the Chinese leadership, expects the path to modernisation in China to be without difficulty.

But the Chinese leadership is unequivocally committed to strong, sustained outward-oriented economic growth, based on domestic economic reform.

Since the Sino-British agreement on Hong Kong in 1984 there has been a spectacular growth in trade between Hong Kong and mainland China.

China has recently espoused a radical, internationally oriented strategy for the development of the coastal provinces, designed to foster the growth of labour-intensive exports using imported raw materials.

It is the clearest signal yet that China is determined to reap the full economic potential of close integration with a dynamic regional economy.

It is my assessment that, for all the simplistic talk in the West about liberals verses conservatives in the Chinese system, there is no opposition to the modernisation process sufficiently strong to derail it.

At the same time as we are seeing these radical changes in China, we are now at another pivotal point in post-war Japanese history - a process of change which despite all the differences between the two economies is at least as important to the future of the region.

I say that because these changes, driven by Japan's large external surpluses and the associated rapid appreciation of the Yen, are necessary not just to secure economic and financial stability in Japan. They are also fundamental to the very functioning of a viable world trading system.

Japan's very success in emerging as an economic super-power has forced it to grapple again with the task of reshaping the structure of its economy.

It has already made an impressive start.

For any one even remotely familiar with Japan's extraordinary success in exporting goods which have penetrated households throughout the world, it is a truly remarkable fact that domestic demand has now completely replaced exports as the primary engine of Japan's growth.

This has set in train major changes in industry composition in Japan, with greater emphasis on the non-traded sector. Moreover, Japan is now importing strongly - including importing manufactured goods.

This has further spurred industrialisation throughout the region, not least in China and ASEAN - a process made possible by the region's complementary resource endowments.

Moreover Japan is increasingly locating its less competitive industry offshore, directing investment and technology to more labour-intensive countries.

The so called Newly Industrialising Countries are experiencing rising living standards, improved balance of payments and, in some cases, reduced external indebtedness - largely as a result of their flexible economic approach which has allowed them to follow the Japanese path to success and, more recently, to exploit the opportunities Japan's success has opened for them.

A recent OECD report forecast that next year the contribution of the NICs to world trade will have increased by half since 1986 and will be virtually as large as Japan's.

Clearly, like Japan, the most successful of these countries also have a responsibility to play their part in fostering sustained growth. Just as flexibility has been the source of their success, it must remain the hallmark of their economic policy making.

Specifically, they have the responsibility to promote freer trade and to allow their exchange rates to reflect economic fundamentals.

Again it is good to see that there has also been some progress recently on this front, particularly via the foreign exchange markets.

In other words, economic reconstruction in Japan is providing a new impetus to growth elsewhere in the region.

But Japan still has more to do.

We are already seeing Japan's economic power being translated into a greater leadership role in international affairs generally. This is, I believe, a quite legitimate process and is, in any case, inevitable.

But the immediate test of Japan's capacity to adopt and maintain a higher profile arises in the economic arena. Specifically, Japan's leadership role will be tested, and should be judged, by its willingness to allow greater access to its domestic market.

We are already starting to see a liberalisation of what have hitherto been very protectionist barriers. There is still a long way to go, and both of our countries are pressing hard to speed up the pace of reform. But, as the Maekawa report showed, the right questions are being asked in Japan and the right answers are starting to be applied.

In all of these ways, then, we face a time in which important decisions will need to be made in order to secure continued regional prosperity into the next century. Across the whole region, nations of differing levels of economic development are responding, as they must, in similar ways to similar imperatives.

Ladies and gentlemen,

Whether we like it or not, there is another important actor in the Asia/Pacific region : the USSR.

We do not have the choice of telling the Soviet Union that it has no right to develop political and economic relationships in the region. The real question is whether its interests in the Pacific are to be pursued constructively or not.

As I said last year, I would welcome a constructive Soviet involvement - and I emphasise a constructive involvement - in political and economic developments in the Asia-Pacific region.

For the greater part of the post-war era, Soviet involvement in the Western Pacific has rightly been regarded with suspicion. We must still continue to be cautious. We must base our judgements on deeds not words.

But I believe that the more rational and creative path suggested by Mr Gorbachev holds out positive prospects. We should be prepared to engage in dialogue, and, on the basis of mutual self-interest, explore cooperation with the Soviets. We intend to do that.

Ladies and gentlemen,

According to Mark Twain, in Boston they ask, How much does he know? In Philadelphia, Who were his parents? But in New York they ask, How much is he worth?

So I owe it to you, having reviewed the region, to tell you what Australia is worth in our Bicentennial year.

Five or six years ago I am sure that many of you would have doubted Australia's capacity to participate in the burgeoning growth of trade in manufactures and services. As a prospect for direct investment in those sectors, Australia's worth might have been rated relatively poorly.

~~Such a judgement could not sensibly be made today.~~

Australia has now addressed the major economic impediments of five years ago - and has done so while also opening our markets to the dynamism of international trade.

Again, look at the broad indicators of our performance:

- with the cooperation of the trade union movement, real labour costs have substantially fallen - and industrial disputes have been more than halved;
- we are steadily improving work practices and reforming the education and training systems;
- inflation is now heading back towards 4 1/2 per cent or so by the middle of next year - about the same as the OECD forecasts for the United States;
- we have converted a prospective budget deficit, just five years ago, of over 5 per cent of GDP to a prospective surplus of about 1 per cent in the coming fiscal year. By comparison the OECD forecasts the United States will have reduced its budget deficit from just over 5 per cent of GDP to about 3 1/2 per cent. So if I speak on this visit of what further you need to do about your deficit - as I will - I speak from a position of strength;
- in Australia, the deficit has been cut through real cuts in Government outlays. They will fall by 1.5 per cent in the coming year, the third year of real decline - and this despite well targeted improvements in programs to assist the disadvantaged. In line with international trends the tax base has been broadened, and corporate and personal tax rates cut;
- just last month the government announced further measures to lift Australia's economic performance, including business tax cuts and further tariff reform. Four years from now, effective protection for manufacturing will have been cut by 30 per cent. Future investment decisions will not be tax-driven or tariff-driven but will be taken in the pursuit of real economic returns.

For an American audience there may seem to be a number of paradoxes here.

In the first place, it may seem paradoxical that a Government like mine, proud of and committed to its social democratic goals, should preside over real wage cuts and sweeping deregulation.

~~But to us there is no paradox, because these measures have been absolutely essential for Australia to build the foundations of real and sustainable growth, and to maintain and gradually lift living standards for all Australians.~~

Underpinning our success has been a degree of cooperation between the Government and the Australian trade union movement which the Managing Director of the IMF, Michel Camdessus, noted recently has added a new element to the economic policy making mechanisms of Government.

This approach has enabled Australia to address its manifest uncompetitiveness of 5 years ago and overcome a subsequent massive and sharp deterioration in our terms of trade, while also creating jobs at twice the OECD average rate - with 80 per cent created in the private sector. By any standards that has been quite a treble.

A second apparent paradox may be that a country with a balance of payments deficit about as large as the United States, relative to GDP, should cut tariffs as we are doing.

But we have been working over five years to internationalise the Australian economy: the Aussie dollar is floating; exchange control has been eliminated; foreign investment restrictions have been reduced to the minimum; and, consistent with that approach, protection is being reduced.

The reason is that we appreciate the potential gains to Australia from trade and particularly from greater enmeshment with our dynamic region.

We want to capitalise on the advantages of our geography. And that requires the kind of flexible, innovative, export oriented industry structure which is needed to compete on equal terms with the world's best manufacturers and service providers. And we want to give our efficient agriculture and mining sectors the best possible chance to expand further by giving them the lowest feasible input costs.

I am pleased to say that we are having considerable success.

Last year, our exports of manufactured goods increased by 30 per cent. Over the last five years the share of manufactured goods in our merchandise exports has risen from 21 per cent to 26 per cent. And, of course, tourism is rapidly growing as a major exporter earner - in fact at twice the rate of merchandise exports.

Indeed our current account deficit has been cut from over 6 per cent of GDP just 2 years ago to 3 1/2 per cent or less over the next twelve months or so.

Ladies and gentlemen,

In other words Australia has learned, and is applying, the lesson behind the apparent miracle of the Western Pacific region: that is, the growth-generating power of a liberal trading environment.

It is not my place tonight to prescribe for the United States the specific and detailed remedies necessary for it to derive maximum benefit from the dynamism of our region.

But, as one of your closest friends, Australia does have both the right and, I believe, the obligation to say that it is clear you have two special responsibilities: reducing your fiscal deficit and seeking faster liberalisation of global trade.

I am told that there seems to be a widespread impression here at the corporate leadership level that there are no problems between the United States and Australia.

Unfortunately, any such impression ignores a real paradox. No two countries, I think, enjoy a closer alliance relationship of first class integrity than Australia and the United States. But that is not mirrored in our trading relationship.

As I said in Chicago earlier today, Americans must not underestimate how much your protectionist actions directed against Japan or the European Community in fact destroy the livelihoods of Australian farmers. And those actions ultimately limit our prospects, and indeed yours, for growth and prosperity. The paradox is real and it is hurtful.

Ladies and Gentlemen,

I have outlined Australia's broad program of reform largely in economic terms. But I would not want it thought that the task of responding to and implementing change is one just for the economists among us. Heaven forbid!

Enduring change, genuine Australian enmeshment in Asia, requires action across the spectrum of Government policy - including some fundamental attitudinal changes by the Australian people.

It requires the development of an export culture: a determination to take on the best and win.

It requires learning how to provide foreign tourists with high quality service and foreign students with excellent educational resources.

It means working to create a society diverse in its skills and cultures and faiths by maintaining an immigration program thoroughly free of discrimination.

It means in other words applying in our homes, our factories, our boardrooms, our streets and shops the unavoidable lessons of the interdependence which increasingly characterises our region and the world.

It would be foolish to pretend that these attitudinal changes are easily made, or that long established habits - in some cases, prejudices - die quietly.

Australia has traditionally been oriented to Europe and the United States. In our view of Asia we have not been free of the ugly taint of racism or xenophobia. But as we prepare to take up a more active role in Asia, I believe Australians will be able to leave those attitudes where they belong - in the history books.

Ladies and Gentlemen,

It is especially true that our hopes for economic progress depend substantially on whether we can continue to live in a region which is stable and peaceful.

Australia plays a full and active role in the diplomacy of the region. We are building our defence self-reliance to boost our capacity to protect the broad strategic interests of the West. And we are working to increase our defence cooperation with our regional friends.

Australia has also shown its capacity to take the lead where constructive and creative action is required. Perhaps most significantly we helped create the South Pacific Nuclear Free Zone. The nations of the region who support the Zone, including Australia, do so because it is an important new means of preventing the proliferation of nuclear weapons. At the same time, as the United States recognises, it is fully consistent with Australia's alliance obligations under ANZUS and your strategic interests in the region.

I believe we are witnessing a time of enduring progress in arms control. President Reagan and General Secretary Gorbachev have established a climate of practical cooperation which I fully expect will yield further reductions in nuclear arsenals.

It is in this climate that my Government sees merit in exploring a new step in arms control for the Asia-Pacific region. This would be a regional effort against chemical weapons proliferation.

I want to announce that just before leaving Australia I asked my colleague, Foreign Minister Bill Hayden, to set in train an examination of how this concept could be developed and pursued in co-operation with regional countries.

Certainly, chemical warfare is an abhorrence. Australia has very actively supported and contributed to the effort to establish a Comprehensive Chemical Weapons Convention in the Committee on Disarmament in Geneva.

But at the same time we may be able to complement these global efforts at a regional level.

I know the proposal raises complex issues. However, I believe the effort to examine a regional approach can certainly serve Australia's interests and, more than that, the interests of the region as a whole.

Ladies and Gentlemen,

In all these ways - economically, socially, politically and in the field of security - Australia is credentialled and equipped as never before to take a constructive role in the Asian region.

I remember Steinberg's famous New Yorker cartoon which shows the civilised world effectively ending on the far bank of the Hudson River.

Shortly past the river, a sparsely settled desert begins. In the distant nothingness the words "Pacific Ocean" are neatly pencilled in.

The cartoon shows how large in your eyes the Big Apple stands. Fair enough. You are certainly entitled to that.

But New Yorkers are also known for their hard realism. Were a new version of the cartoon to be drawn in 1988, I like to think that in the place of the distant Pacific nothingness we would surely see the outlines of Seoul and Shanghai, Singapore and Tokyo, and also of Sydney and the other Australian cities which are increasingly making their presence felt in the region.

For those centres of economic growth in Asia and the Pacific will increasingly move from the horizon to the foreground.

They must increasingly command the attention and demand the involvement of anyone in America who would help fulfil the promise, and reap the rewards, of the Pacific Century.

And, my friends, may I conclude with this proud assertion - by their record of shared commitment in war and in peace to the defence of freedom and the liberty of the individual, by the friendship of their two peoples, by the quality and abundance of their human and material resources, no two countries are better able, together, to reap those rewards for themselves and for the people of the region than are our two great nations, Australia and the United States.
