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PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA
SYDNEY - 26 MAY 1989**

There are many reasons why it is a pleasure to be here today.

Most immediately, it is a welcome duty for me to launch John Nieuwenhuysen's book Towards Freer Trade Between Nations. It is an important book on an important subject, and having already expressed my endorsement for it in my Foreword to the book I appreciate this opportunity, which I shall take up shortly, to comment in greater detail on it.

It is a pleasure also to be here to congratulate the Committee for Economic Development of Australia - CEDA - both for sponsoring the publication of this book and for hosting this conference. For many years CEDA has made an impressive contribution to the generation and discussion of ideas in domestic and international policy-making.

By all reports, this conference has once again demonstrated CEDA's commitment to creating a more informed public debate on the key issues we face at the close of the 1980s.

Most of all, however, I welcome this invitation to address you today because of the overwhelming importance of the issues you have been discussing for the past two days, and because of the constructive contribution Australia is making to the development and resolution of those views.

The theme of this conference, The Pacific Era - Your Future? poses a significant question.

For a long period of Australia's history, most Australians would have believed their future lay with the region that gave us this nation its birth - Europe, and most specifically, Great Britain.

Today, the Australia-Europe relationship remains very strong, whether it is measured in economic, cultural, political or demographic terms. Indeed in a month's time I will be making a visit to France, Great Britain, Germany and Hungary, as well as the United States, in order to reaffirm and strengthen those ties.

But throughout this century, as Australia matured as an independent nation, the orientation of our commercial and diplomatic activity has increasingly been towards the Asia-Pacific region.

So much so, in fact, that today, any moderately well informed Australian, when confronted with your conference title, would edit it, remove the question mark, and make the affirmation: The Pacific Era - Our Future.

Of course our future lies with the immediate region.

That has been apparent since, first, Japan and, then, other Asian economies sought Australian raw materials to fuel their growing industries in the decades following World War Two.

It has become increasingly apparent as the consumer markets of Asia grow in sophistication and affluence, presenting immense opportunities to our manufacturers and service exporters.

It has become increasingly apparent as Australian industry benefits from investment and imports from the Asian region, and as European investors come to appreciate the obvious advantages of Australia as their springboard into Asia.

In 1987/88 Australia's trade with the Western Pacific region accounted for nearly half of our total trade, and this rises to two-thirds with the inclusion of North America.

Around half of the total foreign investment in Australia originates from the Asia-Pacific region, and almost 60% of Australia's overseas investment is located in the region.

Eight of Australia's top ten export markets are in the Asia-Pacific region: Japan, the United States, New Zealand, Hong Kong, South Korea, Taiwan, China and Singapore.

The question is not, then, for an Australian: Does our future lie with the dynamism of the Pacific? It is: how best do we position ourselves, what actions do we need to take, to ensure the benefits of that enmeshment are obtained and not wasted?

In the same way, as Dr Nieuwenhuysen's book recognises, the question is not: Is free trade an appropriate mechanism for building prosperity?

That question is already answered. Just look at the astonishing growth of this region and you see a growth and a prosperity that was built, in the early post-war decades, through reliance on open and competitive trading policies - especially those practiced in the United States.

Already the Asia-Pacific region provides more than half of the world's economic output, with the outlook for further growth in that share, and accounts for more than one-third of world trade.

So the relevant question Dr Nieuwenhuysen's book asks is: how do we ensure the survival and reinforcement of the practice of free trade, so that we may continue along that path of prosperity?

To bring these two sets of questions together - the nature of our Pacific future and the importance of trade - I note that conferences such as this are likely to dwell in glowing terms on the glorious future that awaits us in what is referred to as "the Pacific Century".

That is good as far as it goes. But the real issue - and very much the harder issue - is ensuring that those glowing predictions are achieved.

How do we usher in the Pacific Century? Surely, through free trade. Because surely, the health and vitality of world trade underpins our capacity to provide better living standards for ordinary men and women in our region and, indeed, around the globe.

This is of course the theme of Dr Nieuwenhuysen's book. One of his contributors put it nicely: trade is not a war won by running a trade surplus and lost by having a trade deficit. Another adds: trade is a positive sum game in which all the participants benefit.

The implication is clear. Those who impose restrictions on trade certainly harm their trading partners, and they damage the overall trading system - but they also delude, and harm, themselves.

So the message of Dr Nieuwenhuysen's book is that progressively moving towards a free and open international trading system will contribute to greater prosperity and stability in the world economy.

Despite the validity of this argument in a scholarly sense, however, there are too many disturbing trends in the global market place to be confident that this truth is being universally understood or acted upon.

Let me enumerate them.

First, the continuing presence of significant trade imbalances between a number of regional countries and the United States continues to be associated with bilateral pressures to open markets in a manner which discriminates against efficient exporters.

Second, we are faced with a trend towards the formation of bilateral or regional trading arrangements which run the risk of being inward-looking and undermining a truly multilateral international trading system.

Third, fundamental tensions continue to exist within the GATT framework of multilateral trade rules, despite the recent resolution of the Montreal Mid-term Review of the Uruguay Round.

I hope this book will be widely and fully read, so I am loath to suggest to potential readers that they should consider taking any short cuts. But I do recommend in particular Dr Nieuwenhuysen's summary of its themes, which includes a valuable distillation of five proposals for action necessary to achieve freer trade.

He outlines these needs:

The need for greater transparency in the nature and cost of protection; the need to open up agricultural trade; the need for a timetable for ensuring application of GATT rules; the need to understand and address the costs incurred by some in the process of adjusting to change; and, finally, the need to combat protectionism by a persistent effort to reveal and promote the advantages of free trade.

In regard to this fifth point, of course, this book itself will play a very prominent role.

All these five points are forceful and practical steps forward. Each is reflected in the decisions Australians have made in recent years to ensure our more competitive participation in world trade.

Australia of course has been a trading nation for most of its two hundred year history. Within only two decades of the arrival of the First Fleet here in Sydney in 1788 Australia exported its first wool clip to Europe.

The problem of course was not that we found export difficult or markets elusive. For most of our history we found it easy to build high living standards on the basis of exporting a range of commodities to an eagerly waiting world.

Our mistake was to pretend, as we did as late as the 1950s and 1960s, that we could go on like this ad infinitum, and that we could therefore shirk the more difficult task of building an export capacity beyond primary production.

The debate between free traders and protectionists in Australia dates back to before the Federation of the Australian colonies in 1901. Progressively, and comprehensively for most of the four decades since the Second World War, this debate was won by the protectionists.

The challenge of manufactured exporting was avoided; we built instead a range of weak, inefficient manufacturers catering for our small domestic market, supplemented where necessary by imports of higher technology equipment.

The crash, when it came, was rough. In 1985/86 it was brought home very forcefully to Australians that the world did not have infinite willingness to support our living standards through high commodity prices. Our decades of protectionist industry policy meant that we had very little to offer the world beyond the traditional staples produced on our farms and in our mines.

It has been an overwhelming priority of my Government since 1983 to diversify our export regime so as to remedy those profound traditional vulnerabilities of the Australian economy.

This required the most dramatic restructuring of the domestic economy, as well as a concerted effort in our diplomacy to create a more export oriented, competitive, efficient, diverse, open and productive Australian economy and to ensure a world trading system in which the fruits of those reforms, our exports, could compete on fair terms.

Maintaining our prosperity will require the development of a domestic economy adequately equipped to take advantage of international and regional economic growth, and it will require access to international markets.

So, profound changes have been underway in the Australian economy since 1983.

We have implemented policies designed to encourage a more open, flexible and responsive industry structure - one which is capable of investment and growth not only in the domestic market but also as a base for involvement in markets through the Asia-Pacific region and elsewhere in the world.

We have sought to internationalise the Australian economy through actions such as floating the Australian dollar and deregulating the financial sector.

Changes introduced in 1988 will reduce the level of tariff protection afforded to Australian manufacturing industry by around 30% and our primary industries have been made more responsive to changes in the international market place. We have plans in place to reduce substantially over time the protection afforded Australia's textile, clothing and footwear and passenger motor vehicle industries. Such reforms are designed to encourage international competitiveness, and to reduce the burden that protectionist policies place on Australia's exporters.

The consensus approach to industrial relations, which has been a central feature of the relationship between my Government, industry and workers, has resulted in significant real wage restraint, major and genuine restructuring of employment awards, and a marked improvement in the industrial relations climate in Australia.

Since 1986, Australia's foreign investment policy has been essentially an open-door approach which welcomes constructive and mutually beneficial investment into the Australian economy. Foreign investment guidelines are essentially open and transparent, with few restrictions.

Last year we announced a major overhaul of the corporate taxation system, with corporate tax rates being reduced from 49 to 39 per cent. This, coupled with the tax imputation of dividends, provides a favourable environment for business investment.

All of these changes have created considerable opportunities for Australian companies - and also for foreign companies based in Australia which seek access to the Asia-Pacific market. International companies have set up business in Australia to capitalise on the opportunities that abound here and in the region, recognising that we are now an effective and competitive springboard into the Asia-Pacific market.

You will no doubt be aware of concerns at present about the way in which Australia's excessive demand is fuelling a serious balance of payments deficit. This is not the place to enter into a lengthy discussion of Australia's economic situation.

But I do say this: don't let these admitted short-term difficulties colour your judgement of the fundamental and enduring reforms that have been undertaken in this country.

Australians have their eyes on the long-term future, and thanks to the fact that our underlying economic problems are being effectively addressed, as never before, gives us confidence that we will be playing a very significant role in this region into that future.

Ladies and gentlemen,

The effectiveness of these domestic reforms would be substantially reduced if the rules of open international trade were to be abandoned or flouted by the major economies.

So it has been a major priority of our diplomacy to pursue, at the bilateral, regional and multilateral levels, policies which will encourage greater openness in the economies of our current and potential trading partners.

In particular, we have taken a close and active interest in the Uruguay Round of Multilateral Trade Negotiations. We fought successfully for the inclusion of agriculture in the GATT round so as to bring pressure to bear on the massively protectionist policies of the major economies, particularly Europe's C.A.P.

Through the Cairns Group of Fair Agricultural Traders, formed in August 1986, we have successfully worked to create a powerful third force in the negotiations. The recent decision in Geneva provided a significant breakthrough at the half-way mark of the current Round - but we recognise too that there is a long way to go before the absurdities and inefficiencies of the C.A.P. are eliminated.

We are also pressing for significant reductions in protectionism in other sectors, including natural resource based products and the new areas of services and intellectual property rights.

In our bilateral dealings with all countries we take the opportunity to urge our partners to remove or reduce trade barriers that invariably exist. Last year we reached an agreement with Japan to liberalise significantly their beef market, and helped to convince the Americans to amend some of the more damaging measures originally proposed for their 1988 Trade Bill.

Ladies and gentlemen,

What is particularly important is that we combat any emergence of restrictive trading blocs, be it in Europe post-1992, in North America, or elsewhere.

As a region, we must employ what means we have at our disposal to ensure that the international trading system does not fragment into exclusive zones.

That would be ultimately to the cost of us all.

It was in part to harness the region's efforts to prevent such an outcome that earlier this year, as part of an official visit I paid to the Republic of Korea, I proposed the establishment of a new and more formal vehicle through which the governments of the region could cooperate in the analysis and discussion of key economic and trade issues facing us.

I see the primary task of such regional cooperation as being the reinforcement of support for an open, non-discriminatory international trading system operating within an expanded and strengthened GATT formula.

That is a goal the nations of this region broadly share and towards which we are already working. Collective action, through strength in numbers, should help us achieve it.

Second, I see the need for the region to investigate the scope for further dismantling of barriers to trade within the region, in ways which do not discriminate against the rest of the world.

Third, closer regional cooperation would be a valuable means of identifying the broad economic interests we have in common. We need to investigate whether, through improved policy coordination, we might better capitalise on the extraordinary complementarity of the economies of our region and so stimulate even greater economic activity within the Asia-Pacific.

Our region, of course, contains a very diverse set of countries, at different stages of economic development, and with quite different social and political systems. To respect these differences and still achieve our common goals is a challenge that will require close consultation and a mutual commitment to achieving consensus.

As a guiding principle for participation we believe the key criteria must be the extent to which countries have economic linkages with the region and their willingness to contribute meaningfully to regional economic cooperation.

Recently, my special envoy, Richard Woolcott, the Secretary of the Department of Foreign Affairs and Trade, has been visiting the capitals of the Western Pacific region to pursue this proposal. So far the feedback we have received has been positive and encouraging.

Australia began the initial soundings of regional views by focusing on ten countries in the Western Pacific, the ASEAN nations, Japan, the Republic of Korea, New Zealand and Australia. This was not an attempt to exclude any country but it did represent the realistic assessment that any broad process of economic cooperation in the region would need to involve these countries as the essential and minimum group.

Subsequently, Mr Woolcott has visited China, Hong Kong and the United States, and will shortly visit Canada.

In all of the countries consulted by Mr Woolcott, the principles underlying my proposals have been strongly endorsed.

There is wide acceptance that our mutual economic interests would receive a significant boost by developing a more effective vehicle for regional intergovernmental economic cooperation.

Now more than ever, there is a regional desire to ensure the economic achievements of recent decades are built upon and extended - a growing regional self-confidence and determination to ensure the pendulum swings towards, not away from, freer trade.

There are many issues still to be worked out. These include questions of participation, the nature of any support structure to underpin greater economic cooperation between governments, and the relationship of any new vehicle to those that already exist.

These are issues that Australia looks forward to addressing over the coming months with the countries of the region.

I stress that we do not seek to create a vast new bureaucracy. That is in no-one's interests. Nor do we seek to derogate from the important role and functions of ASEAN, which continues to be a major political influence in Southeast Asia.

PECC, too, has been an extremely useful institution which has built up the habit of multilateral dialogue and research.

But I believe it is now the time to extend that habit up to the governmental level throughout the region and so provide an additional, effective, means for advancing our region's concerns in the changing international economic environment.

Ladies and gentlemen,

My address today has largely been cast in economic terms. Dollars and yen are critical, after all, in determining the prosperity of the peoples of our region.

But it would be a profound mistake if we were to assume that we are dealing purely with issues of global economic management, or if we were to pretend that such issues do not have vital relevance to, and impact on, broader questions - including the fundamental question of global peace and stability.

In January 1987 I had the honour of delivering the opening address to the World Economic Forum's Symposium in Davos, Switzerland.

I said then that if we were to learn anything from pre-war history it must be that the global conflict of the Second World War was in large measure the product of the failure of political leadership to recognise and adjust to the collapse of economic relationships between and within nations.

The world paid a heavy price then for its incapacity to read and resolve the emerging economic autarky of the 1920s and 1930s. But as horrendous as that price was, it would be as nothing compared to the consequences of conflict in this nuclear age.

I warned on that occasion at Davos that commercial tensions in the 1980s among the developed industrial democracies - and I was referring in particular to the debilitating dispute over trade in agricultural products - would, if continued, considerably erode Western political and security relationships.

That the process might be subtle and gradual, rather than sudden and dramatic, would make it no less pernicious and its ultimate consequences no less damaging.

That was January 1987.

Since then we have witnessed, over nearly thirty months, an astonishing political transformation - a transformation that only heightens the relevance and sharpness of my warning.

What we are seeing is nothing less than the emergence of a new era in world affairs.

At the level of superpower relations, including strategic nuclear arms control, and at the regional level in Afghanistan, Angola, and Cambodia, we are witnessing a new capacity for negotiation leading to sensible and farsighted solutions.

In the massive programs of reform underway in the Soviet Union we are perhaps seeing the erosion of the command economy model and its replacement with a more responsive economy and a more open society.

Throughout Eastern Europe we are seeing a diversity and acceptance of change unparalleled since the Iron Curtain was erected.

What an irony it would be if, at the very time when the merits of the market economies are starting to be understood and emulated by these command economies, we market economies were to abandon the fundamental factor behind our success - the principle of free trade.

And what a tragedy it would be if the emerging signs of maturity in the conduct of political relations between nations were to be flouted and jeopardised by an incapacity satisfactorily to manage our economic relations.

The fundamental truth is that we are all interdependent. The poverty or prosperity of one of us are questions that concern us all. They effect not only our own economic well-being but also, fundamentally, our political security and stability.

As a region, we have much to offer each other. We have substantial shared political and economic interests, and a powerful complementarity in our economic skills, resources, and business, cultural and political links.

The opportunity is now at hand to grasp the potential of our region.

By working to liberalise multilateral trade, and by seeking to build regional cooperation, we are seeking to safeguard and enhance our future.

That way, I believe, we can ensure that we enter the next century with confidence that our great potential will be fulfilled.
