



PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
ASIA-PACIFIC ECONOMIC INSIGHT CONFERENCE
CANBERRA - 15 APRIL 1991**

Ross Garnaut
Distinguished guests
Ladies and gentlemen

This Conference meets at a time of profound economic change within Australia, within our region and in the wider world. I am pleased to be able to address you tonight, as I strongly believe that the Conference will serve the vital purpose of alerting Australians to the directions in which the Asia Pacific economies are evolving and to the opportunities these trends present for Australia.

It is important at such a time that decision makers in Australia and abroad seek to understand this dynamic process of change, and to master it - not only so that pitfalls can be avoided but also so that the undoubted opportunities that await us as a nation and a region can be maximised and harnessed to the pursuit of higher living standards.

It is within this spirit that I wish to speak tonight on the changes underway in Australia by recalling, first, how far we have come, before outlining to you what we need to do to make further progress.

Throughout most of this century, Australia sought development in comparative isolation - isolation based not only on our distance from markets but also, perhaps paradoxically, on the bounty of the country which reduced the pressure on us to search for overseas markets for anything other than agricultural or mineral products.

But over recent years Australians have been learning that we are doing ourselves a great disservice if we pretend that Australian isolation from the challenges of the region and the world can somehow continue to be the norm.

This is reflected in changes in our foreign policy, in our discrimination-free immigration policy, and in many aspects of our national life. But my subject tonight is the internationalisation of Australian economic policy and perspectives, and our increasing enmeshment in the economies of the region.

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Australia has always been a plentiful producer of primary goods, helping feed the people of the region and fuel the burgeoning industries of North East Asia. But never before have we had such legitimate confidence that we could play a role as full regional partners across the spectrum of economic activity. That is the prospect that is at hand today, replete with significance for all of us.

Since 1983 we have gone a long way up the boulder-strewn and arduous uphill road of reforming our domestic economic institutions and attitudes.

Our goal is an Australia with a vibrant flexible economy, enmeshed with our trading partners in our region and beyond - an Australia where work practices, business management and academic excellence match or better the best in the world - an Australia where we maximise the potential of our people and ensure them the economic and political opportunity to reach that potential.

Our determination to achieve these goals was exemplified in the recent statement I delivered to Parliament, Building a Competitive Australia.

No better symbol, and proof, of Australia's historic preference for isolation over international enmeshment can be found than our historic legacy of tariff protection. It is that legacy that this Government has substantially reduced and, with the 12 March statement, now virtually eliminated.

In summary, I announced the Government's decision to

- . reduce tariffs for most manufactured products to 5 per cent by 1996; and
- . reduce tariffs to 25 percent on textiles, clothing and footwear and to 15 percent on passenger motor vehicles by the year 2000

Turning the pernicious and pervasive tide of Australia's traditional protectionism will, I am confident, be regarded as a watershed decision in the history of this nation. The fact is, behind high tariff walls, Australian industry was able to regard the domestic market as its captive. Industry was given little incentive to improve the quality of its product or adopt new technology. Managers and workers were able to eschew international best practice as an irrelevancy, and indulge in debilitating confrontation instead of cooperation.

Worse still, tariffs damaged our traditional efficient export industries - agriculture and mining - by raising input prices directly, and encouraging and facilitating excessive wage increases.

It was the Australian consumer who paid the immediate penalty of tariffs: higher prices. But ultimately it was the Australian economy as a whole that suffered - simply, because Australian industry was incapable of competing on world markets - and all this at a time when the rest of the world, including our own region, was growing rapidly.

It is important that you understand that these latest tariff reductions formed part of a wider economic statement aimed at lifting Australian competitiveness through further tax reforms, new support for training for managers and apprentices, and new initiatives to help build Australia as a "clever country".

One specific initiative that may be of interest to this audience is our new scheme to facilitate work experience for our graduates and corporate executives in the Asia Pacific region.

In turn I want to stress that this package of reforms is complementary to the developing momentum of micro economic reform in other areas - in particular, our unprecedented campaign to lift the productivity of our waterfront and land transport systems, historic changes to telecommunications and domestic aviation, and pathbreaking reforms in workplace culture and in eliminating the duplications of our Federal system of Government.

And these in turn must be seen in the context of Australia's international initiatives. I refer in particular to our regional diplomacy, spearheaded by my 1989 proposal to establish a new forum of Asia Pacific Economic Co-operation, and our campaign as founder and leader of the Cairns Group in the Uruguay Round of GATT to strengthen the multilateral trading system.

Ladies and gentlemen,

The building of an internationally competitive Australia has been a tough task. There is a long way to go before our people are making full use of their talents in intensive two-way trade, beyond primary products, in advanced manufactured goods and services. But we take some comfort from the fact that, despite the clouds and gloom of recession, the long-term structural change that we need is shining through.

In the second half of the 1970's our manufacturing exports grew by a compound rate of 1.4% a year. In the first half of the 1980's that had lifted to 4.5% per year. In the second half of the 1980's we had improved the rate to nearly 13% per year. Growth over the past two years is the strongest yet, at an average rate of 24% per year. This has contributed to recent balance of payments figures, showing that the balance of our merchandise trade has been in surplus for 9 of the last 12 months and that exports were at a record level of \$4,452 million in February.

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By comparison with this encouraging progress in manufacturing exports, our agricultural exports have stalled. In the second half of the 1970's our agricultural exports grew by nearly 9% per year. By contrast, in the 1980s, despite the large productivity gains of our farmers, they have been stagnant.

A large part of the reason is clear: agriculture, as you all know, stands out as a dishonourable exception to the general commitment by advanced countries to liberal trade.

The combined farm subsidies of the EC, and to a lesser extent the US and Japan, have recently averaged more than \$300 billion a year for a sector that produces about 3% of their GDP. But this direct cost on their consumers, manufactures and service industries does not stop there. A bloated, subsidised agricultural sector restrains the standards of living in the advanced countries - and blocks development and trade expansion in developing countries, and in primary exporting countries, like Australia. That is a pernicious syndrome that we must all work to reverse.

Ladies and gentlemen,

I do not pretend that Australia is anywhere near the end of our reform path or that our achievements to date are unique in the region.

But I do say this. Given the magnitude of the reform task that lay ahead of us, we have made significant progress. Australia is entitled therefore to expect that economically developed countries of our region, such as Japan and Korea will examine their own practices in agricultural protection and join with us in pressing the EC and United States, in order of priority, to cease their export subsidies and wind back import restrictions.

Failure to secure commitment to real reform in these areas will not only jeopardise the potential benefits that we know will flow from the successful conclusion of the Uruguay Round, it will also cripple the ability of the world trading system to continue to provide the engine for further economic growth. Significantly whilst we will all suffer, those countries least down the path of economic development will be damaged the most.

Ladies and gentlemen

The excellent resource publication you have received as participants in this conference highlights the benefit to individual countries in our region and elsewhere of low inflation.

For over twenty years Australia has in comparison with its trading partners been a high inflation country. This factor has undermined our exporters' competitiveness and has warped the investment decisions of our business people and foreign investors.

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We are now breaking through to be an economy of comparatively low inflation with a rate that, at 6.9% is below the OECD average and is trending substantially lower.

The initiatives announced on 12 March will strengthen that downwards trend, bringing commensurate falls in interest rates.

With these economic foundations in place and the unique success of the Accord in our approach to industrial relations we will see the continued natural growth in our manufacturing and service areas coupled with continued performance of minerals development and exports.

Ladies and gentlemen

I have focussed on the changes we are making in Australia with, on the basis of the evidence I believe, some justifiable pride in our achievements while acknowledging the process cannot stop.

Change is occurring in our regional partners and in the 12 March statement we acknowledged that with the decision to freeze preferential tariff levels for Hong Kong, Singapore, Korea and Taiwan. In this way we have preserved their positions whilst our general tariff levels move down to meet their present levels before both move to 5%.

It would be remiss of me to fail to recognise the very real changes that have occurred elsewhere in our region. They have complemented our moves and stand to benefit our entire region. To mention all the countries or all the changes would take too long and would duplicate much of the program content of the conference.

In our early meetings, the then Prime Minister of Japan, Mr Nakasone, and I focussed on the need for the multilateral trade negotiations, which was later launched as the Uruguay Round, to deal effectively with agriculture for the first time. We are getting closer but we are not there yet. Certainly we recognise the importance of Japan's step, after many and sometimes difficult discussions at many levels, including Prime Ministerial, to remove quotas from beef imports.

Japan has also taken the less glamorous but equally important steps of addressing inadequacies in its anti trust laws and regulations inhibiting new entry of business. Protective restrictions on new shopping centre developments are to be revised. Since 1989 Japan has been the world's leading foreign aid donor and has kept approximately 80 per cent of that aid untied.

In Korea there has been significant reform of financial markets and structural reforms in the ownership and management of the large corporate groups.

Indonesia has significantly removed restrictions on foreign investment projects, liberalised the financial sector, reduced maritime transport regulation, moved to a tariff basis for protection from quantitative restrictions and reduced some tariff levels and has started a program of improving the efficiency of its state enterprises that are involved in so many of the sectors of its economy.

The striking similarity of the economic reform processes throughout our region are indicative of the potential we have in the last decade of the twentieth century for closer economic cooperation for our mutual benefit.

By our continuing to work together, recognising differences where they occur and drawing upon our divergent experiences to address the problems we will undoubtedly face, we can ensure that the powerful growth continues in East Asia, it spreads to more countries, including Australia, and that it brings prosperity to all of our peoples.

Ladies and gentlemen

The unique opportunity we have to work together for our future is clearly demonstrated in the Asia Pacific Economic Co-operation process.

This flexible, dynamic process will further facilitate our ability to develop individually and as a region. The APEC process is evolving in a way which complements existing regional and multilateral structures. I hope it will soon be extended to include the Peoples Republic of China, Taiwan and Hong Kong and soon thereafter other regional partners.

- . APEC participants now account for 46% of world production and one third of world trade
- . Our region is one of high growth, rising productivity and intensive trade and investment interaction.

The underlying forces which gave rise to APEC will intensify in the coming decade as the focus of world production and trade shifts increasingly towards the Pacific and as the Asia Pacific economies play a more active role in world affairs.

The crucial interest for Asia Pacific economies is in developing a framework of support for, and commitment to, liberalising international trade and economic policies.

My Government has committed Australia irrevocably to this course.

Cooperation in trade, investment, human resources development, and in specific sectors such as energy and tourism, can bring benefit to all APEC countries.

Even in the collection and sharing of trade and investment data, there is much to be done

- work on trade promotion within APEC, for example, has led to an important proposal by Singapore for the electronic exchange of a wide range of trade and industrial information among APEC economies, based on the Singapore Trade Development Board's Globalised Information Network.

APEC has a complementary relationship with the Pacific Economic Co-operation Conference (PECC) and the involvement of the business and research sectors, alongside officials, in identifying practical opportunities for economic co-operation within its various task forces and forums.

PECC's work on fisheries and the regional outlook, for example, feed directly into the APEC process.

In the area of energy, to take another example, the countries of the region face a number of common issues and challenges. In co-operation with PECC's Minerals and Energy Forum, APEC has a promising work program. Work in train on specific areas includes study of energy supply and demand in the region; energy conservation and efficiency; clean coal technology; and research and development and technology transfer. Significant progress has already been made on steps to improve energy data in the region. Ultimately, this work is likely to lead to improved forecasts, with major benefits in planning energy infrastructure required to meet rapidly growing energy demands in the region. The energy project has an important and practical focus on environmental issues.

The participants in APEC start from the fundamental commitment to strengthening the open multilateral trading system

- APEC members must hold fast to that commitment and take the steps that are necessary to push it forward at the national and regional level
- I am pleased that non-discriminatory regional trade liberalisation is on the agenda for detailed consideration at the next Ministerial level meeting in Seoul later this year.

APEC's work is being built upon foundations laid in PECC, in the Pacific Basin Economic Council of business leaders, and in the Pacific Trade and Development Conference Series. The meshing of academic, business and Government resources to define the problems we face, and to find the solutions, is essential.

All these bodies engage in the vital and productive processes of exchanging ideas and experiences and identifying opportunities for the future. In this, the work of economists here tonight has done much to build the intellectual basis for Pacific Economic Co-operation.

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The Australian National University has played a central and valued role in these endeavours.

Tonight I would like to announce a modest initiative to strengthen further the intellectual sinews of Pacific economic co-operation. Economists through the region are familiar with the Journal of Asia Pacific Economic Literature, which has been produced at the Australian National University for several years. I am pleased to inform you that the Australian International Development Assistance Bureau is developing a program to distribute the journal through the APEC countries.

I congratulate economists in the Research School of Pacific Studies, and Ernst and Young, for organising this Conference. The information and analysis you have assembled will contribute to enhancing Australia's performance in Asia and the Pacific. I wish you well in your consideration of the issues facing our region.

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