



PRIME MINISTER

SPEECH BY THE PRIME MINISTER, THE HON P J KEATING, MP

**GLOBALISM AND REGIONALISM: AUSTRALIA'S TRADE POLICY
AGENDA FOR THE 90S KEYNOTE ADDRESS TO THE AUSTRALIAN
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You have been talking at your conference here today about our region, and how we the people of the region will fare over the next couple of decades.

This evening I want to talk about how Australia and our region may change over this time, and how the choices we make today will decide what kind of world we and our children will find in the new century.

You'll notice that I have already taken Australia to be part of the Asian region, which is in itself something of a change in our thinking. We are geographically part of it, and much of the change in Australia in recent years has been a process of cultural attitudes somewhat reluctantly accommodating themselves to geographical facts.

As President Soeharto and I agreed during my recent visit to Indonesia, it is hard to change attitudes, but not as hard as changing geography!

Our economy is also increasingly integrated into the region, and the visitors here this evening will have seen in our cities evidence that the fastest growing migrant population in this country is from Asia.

In the last decade or so the Asian region has been transformed into the most rapidly growing regional economy in the world, with a high share of exports in output, and a high degree of trade within the region.

If we include Canada and the United States in the wider region, as we do in APEC, then of course we are talking about the preponderant grouping in the world economy, with half the world's output and almost half the world's trade. Of that trade, nearly two thirds is with other members of the group.

Australia has been a full participant in these regional changes, and over the next few decades we intend to integrate ourselves into our region even more closely.

But I think that we will soon have to make important choices in our region. We will soon have to decide how we as a region, and Australia as a member the region, will respond to the emerging new pattern in world affairs which follows the collapse of the Soviet Union..

One of the powerful realities we must recognise is that economic regionalism is shaping the post Cold War order.

As the era of the Cold War ended, we discovered that we were already entering the era of Maastricht and NAFTA. In our own region Asean has said it will form a trade area, and all the countries of the region have created the 15 member APEC grouping with an agenda of discussions on trade liberalisation.

But paradoxically another powerful force encouraged by the of the end of the Cold War is globalism.

The market economy model is now nearly universally accepted in industrial countries. The former communist countries are rapidly being integrated into global institutions like GATT, the IMF and the World Bank. We are seeing issues like the environment and weapons proliferation dealt with in global forums. And in Kuwait and Cambodia we witness the United Nations play a role it has not been able to play for decades.

Though they appear to be contradictory, these two forces of regionalism and globalism are in fact complementary.

They are the two economically unifying counterweights to the forces of nationalism, ethnicity and religion which have also been released by the end of the post war ideological battle.

Certainly I regard them as complementary, and Australia's international economic policy embraces both a global and a regional strategy.

The job for governments everywhere is to fit these two forces of regionalism and globalism together at a time when, for better or worse, the Uruguay Round of the GATT is coming to a conclusion.

This recognition that economic regionalism is a dominant force in the world economy does not for a moment mean we have lost faith in GATT. It does not mean that we will cease doing whatever we can, whenever and wherever we can, to entrench through the GATT a stronger set of principles of fair trade to which all countries subscribe.

But we do recognise that trade and investment growth today is predominantly within regions, that Europe from the Atlantic to at least the Urals and perhaps beyond is firmly set on a course of deep economic integration over coming decades, and that in all probability we shall be dealing with another free trade area from Canada to Mexico by the end of this year.

We might not like this evolution, but whether we like it or not we cannot stop it. The only question is how we should respond to it.

That is a theme to which I will return later, but let me set the scene for the next few decades by telling you about how Australia has changed in the last decade to prepare itself for the changes to come.

For the decades following World War Two we in this country hid behind tariff barriers, creating what by the early eighties had become an industrial museum. The economy was highly regulated and unable to adjust to the explosion of growth which was then occurring in Asia.

Over the last decade we have radically reformed.

We floated the dollar and deregulated financial markets, replaced conflict with consensus in industrial relations, set in place a program of tariff cuts and industry modernisation, and pruned the government sector .

More recently we have encouraged a wholesale shift into enterprise bargaining as the principal means of deciding wages, and pushed forward a program of industry reform which has dramatically increased the productivity of our ports, and changed the face of our aviation and telecommunications industries.

We are beginning now on vast new improvements to our railways and roads.

In our One Nation statement earlier this year, we made changes to our business taxation system which make it one of the most competitive among industrial countries.

And I am glad to say that the results of this reform process have shown up in the transformation of our trade - a transformation in volumes, composition and destination.

A decade ago Australia exported less than one sixth of our production.

Today we export over a fifth, and it has been steadily climbing over the whole period.

A decade ago we more often than not imported more goods and services each month than we exported.

Today, we export more than we import. Most Australians would probably be surprised to know that we have a stronger goods trading balance than many other countries in the region, including Singapore, Thailand, Malaysia, and Korea.

A decade ago Australia had one of the highest inflation rates in the industrial world.

Today it is one of the lowest, and lower than most of our regional trading partners.

A decade ago our cost structure made it hard for exporters to compete.

Today we have increased our competitiveness by a tenth, and entrenched our competitive advantage with low inflation and high productivity growth.

As the sheer volume of our exports increased, their composition and direction changed.

Both our services exports and manufactured exports have tripled over the last decade. Last year for the first time we exported more manufactured products than rural products. Manufactures earn us more than metal ores and minerals, or tourism or coal.

Nine out of ten of our largest export markets are now in Asia and the Pacific.

Today, more than half of our merchandise exports go to Asia.

The countries of ASEAN are today collectively a bigger export market for us than either the US or the EC.

Our aim is to be at home in the region, with a highly competitive world class manufacturing sector, exporting a diverse range of commodities, manufactures and services to the region and beyond.

The slow growth we and most other industrial economies are now experiencing as we recover from recession obscures the very real change in the economy. But even with slow growth, we have found that far from destroying our manufacturing base in this country our structural reforms have nourished it.

Our manufacturing output today is nearly a tenth higher than it was a decade ago and nearly a third higher than it was twenty years ago, the so-called "golden era" of protected Australian manufacturing.

And as I have explained, we are exporting more of our manufacturing output than ever before.

The range and pace of our structural reforms over the last decade demonstrate our recognition that whatever happens in the world trading environment we will cope with it best if we ourselves are as nimble, fleet-footed and adaptable as possible.

Both the region and this country have profoundly changed over the last decade. What will happen in the next two?

I spoke earlier about the strategic choices we face as the Uruguay round comes to an end, as Europe continues on a deeper and more comprehensive integration, and as the United States creates its own free trade area with Canada and Mexico.

The choice is between entrenching the prosperity of the region through increasing global openness, or being forced onto second best paths which restrict trade and leave us all worse off.

If governments make the right decisions, if the Uruguay Round succeeds and the countries of our region continue to liberalise, then over the next two decades East Asia will continue to be the fastest growing area of the world economy.

Growth of Asian markets will continue to exceed that of other markets, including the EC and North America, as population grows and incomes rise.

Japan will be an even stronger, better balanced economy, while the smaller Asian market economies will increasingly be concentrating on services and off-shore manufacturing.

Some, like Korea, will have joined the OECD and other industrialised country organisations. There will be a new pack of "tigers" in South East Asia, benefiting from political and strategic stability, and more outward-looking economic policies.

With a new generation of leaders, China is likely to commit itself increasingly to the market model, taking the lead from its thriving coastal trading economy.

Korea may perhaps be reunited, ultimately bringing to the North the economic prosperity that is transforming the South.

If all goes well, the three nations of Indochina will also be growing market economies.

APEC will evolve into an outward looking regional trading group, with the participation of both Japan and the United States.

Australia will be changed, too, with an even larger trade sector, more exports of services and manufactures, and a still sharper focus on markets within the region.

The realisation of this world depends upon increasing trade within the region, which in turn depends upon countries' being as willing to buy other countries exports as they are to sell their own.

It depends on making the right decision to lower regional trade barriers at the same time as we entrench fairer global rules.

But if we make the wrong decisions, or if they are forced upon us, we face another possible future by 2010 - a future quite different to the one I sketched earlier.

If the region cannot continue to open its own markets, and still worse if we begin to encounter difficulty in markets of Europe and North America, then the forces now underpinning the region's success will be reversed.

We would see a weakened world trade system, with GATT rules increasingly flouted.

We could see an inward looking North American Free Trade Agreement, possibly extended throughout the Americas, edging out competitors from its markets.

We could see Europe going its own way, placating a multitude of domestic constituencies at the expense of foreign competitors, and of its own future prosperity.

We could see Japan defensively creating a regional yen bloc, based on preferential trade and investment rules.

Lesser developed areas, like China and Indochina, stunted in growth.

And Australia, its exports markets restricted, forced into difficult economic and strategic choices between the United States and Japan.

As I said earlier, the choice between the bright scenario and the gloomy scenario will depend on how we fit together the forces of regionalism and globalism in trade policy.

For my part I think the best fit is attained when we work towards the strongest set of universally agreed minimum standards we can on a global basis, and at the same time attempt to do better on a regional basis.

Given the large and diverse membership of GATT, it is inevitable that an agreement which is universally acceptable must leave plenty of opportunities for regions and subregions to improve on the benchmark without violating its rules.

And given the fact of propinquity, it is inevitable that regional arrangements which are GATT friendly will nonetheless be of greatest benefit to the region concerned.

So we will be seeking constantly to strengthen international trading rules through the global institution, GATT, at the same time as we seek to build regional trade and economic arrangements which take us beyond what we have been able to achieve on a global consensus.

We remain committed to a successful Uruguay Round because it can bring us substantial benefits, not just in agriculture but also in manufactures, services, intellectual property rights and many other areas.

According to one cautious Canadian study, the package now before us would, if agreed, increase global income by something of the order of 120 billion dollars a year.

As you know, no breakthrough came about during the Munich Summit of the G7. I do not pretend to be other than disappointed at the failure so far to bridge the remaining differences. We will be pressing hard for the G7 leaders to make good their commitment to reach a balanced agreement before the end of the year.

Stalling the round indefinitely would be a failure of political leadership on a grand scale. It would represent a shameful capitulation to the selfish forces of economic protection.

But while successful GATT outcome is important it won't begin to exhaust the trade growth possibilities in the region.

According to a study by the Centre for International Economics, the Asia Pacific region would gain the equivalent of \$300 billion if the countries of the region were to agree to liberalise with a fifty per cent reduction in tariff and non tariff barriers.

APEC holds great promise in this next phase of trade reform. Institutionalisation of APEC will signal a new area in regional economic co-operation. APEC members have committed themselves to reducing barriers to trade amongst themselves in a GATT-friendly way.

Already APEC working groups are hard at work in different sectoral projects. In the next 12 months we are likely to see substantial outcomes from various projects which will yield significant practical benefits for business. These include customs reforms, changes to administrative barriers to market access, development of tariff databases, and others.

In some areas it will be possible to move forward in smaller groups of economies - say like-minded groups in the Western Pacific - and then extend agreements later to take in all APEC members, or even economies not yet in APEC. The Trade Minister, John Kerin, and I will therefore be asking our senior trade officials to explore some of these options with regional countries before the end of the year.

One possibility is to look at the potential offered by the growing aviation market in our hemisphere. On current trends, by 2010 Asia will have consolidated its place as the world's pre-eminent international aviation market. This process could be enriched through an expansion of regional aviation rights.

Other possibilities include regional agreements on investment and on services, including telecommunications, banking and insurance.

As a steel exporter, and also as a supplier of raw materials to the steel makers of north Asia, Australia would also be receptive to discussions on a regional steel agreement, if the global talks remain stalled.

Over coming months we will be reexamining trade policy options in the light of the Uruguay Round outcome and regional developments. Some of these options are reviewed in discussion papers commissioned by the government and prepared by Professor Richard Snape, which will be released by the Minister for Trade on Wednesday.

The papers will contribute to the debate on our national trade strategy which will be capped by a comprehensive Ministerial Statement by Mr Kerin in October.

I have no doubt that regionalism will become increasingly important to us in coming decades. That is why I have this evening suggested a few regional trade initiatives we will pursue. But we should always bear in mind that the region has founded its development on trade and, more than any other, enjoys the benefits of the principles of interdependence and openness. Over the next two decades we must continue to demonstrate that the best outcome for all economic regions is attained when we have strong global rules while maximising regional trade opportunities.