



PRIME MINISTER

SPEECH BY THE PRIME MINISTER, THE HON P J KEATING MP
TO THE AUSTRALIA-NEW ZEALAND BUSINESS COUNCIL
AUSTRALIA, NEW ZEALAND AND THE REGION
AUCKLAND - FRIDAY, 21 MAY 1993

Few relationships between countries are as close, with so much mutual benefit and so few differences, as the relationship between Australia and New Zealand. It is a relationship in which we literally take each other's good will and candour for granted, as I believe we should and always will.

But where once our fellow feeling arose out of a shared sense of isolation in this part of the world, my discussions today with your Prime Minister and Cabinet, and with your Opposition leadership, confirmed the thought I've had for some time: the basis of our relationship is rapidly changing.

Today we share not a sense of isolation but a knowledge of opportunity.

Not a suspicion that we are in the wrong part of the world, but a conviction that we are in the right one.

Not a sense that we can depend only upon each other, but that we are both part of a great web of production and trade from your South Island up through East Asia to Japan's northern islands, and from Indo China to the East coast of the United States.

You with your Asia 2000 program, we with the rapid reorientation of Australian industry, are finally coming to terms with geography. We both remain determined to integrate our economies, but we are now conscious that our future lies not with each other, but in the wider region - not separately, not jointly, but companionably.

Like most Australians, I am well aware of the energy and rapidity with which New Zealand has been restructuring its economy, and I have followed your national debates on economic reform with great interest.

And as New Zealand has changed, so too has Australia.

It is most visible in our trade performance. Over a decade, exports have more than doubled. A decade ago barely one dollar in eight in Australia came from exports. Today it is one dollar in five, and climbing.

Today manufactures and services each rival rural exports, and both are growing. The fastest growing manufactured exports are elaborately transformed goods - and New Zealand is our biggest ETM market, as we are yours.

As our exports have grown and the nature of our exports has changed, their destination has also changed. A decade ago less than half of our merchandise exports went to East Asia. Today nearly two thirds do - and our exports to Asia are far and away the fastest growing part of our trade.

The ASEAN countries are now a more important export market for us than either the US or the EC.

Behind these changes in our trading performance are the efforts of Australian industry, and deliberate changes to government policy.

We have opened up the economy by floating the dollar, abolishing capital controls, and putting in place a sensible, consistent program of tariff reductions.

We have doubled productivity on our wharves, and reduced crew levels on coastal shipping to the OECD average.

We have introduced competition into telecommunications and deregulated air transport.

We have introduced a national system of enterprise bargaining, which we intend to sustain and encourage through comprehensive legislation later this year.

We have over a decade maintained an Accord with the trade union movement which has been a significant factor in reducing inflation to one of the lowest rates among industrial countries.

And as a result of tax reforms we now have one of the lowest ratios of tax to GDP in the OECD.

The change continues today. We are cutting the company tax rate from 39 per cent to 33 per cent. We have liberalised depreciation provisions to encourage investment in long lived plant and equipment. We have introduced a conditional 10 per cent investment allowance for plant and equipment, and an additional 10 per cent development allowance for approved projects with a capital cost over \$50 million.

After the recession of the late eighties we are advancing into the nineties with consistently higher productivity growth than we have had for a generation, low inflation, and the lowest level of industrial disputes for decades. We have a trade surplus, and manufacturing production is rising.

There is no doubt the structure of the Australian economy is changing, and that we have the policies in place and under development to maintain the pace.

But change is easier and faster when the entire economy is growing rapidly, when young people are confident they will be able to find jobs and older people are confident they will keep theirs.

Our growth is still not fast enough to generate the jobs we need to rapidly reduce unemployment, and I am more than ever convinced that the package of investment incentives and company tax cuts and of jobs programs, together with an Accord which focused on employment, was the right package to put before Australians in our recent election.

We are not doing as well as we need to; and the world economy is not doing well enough. It is troubling to see Europe doing so little to move out of the economic trough. It is troubling to see growth moderate at best in the US and very slow in Japan - and Mr Bolger and I warmly welcomed Mr Miyazawa's recent package to stimulate the Japanese economy.

If there is one thing which I believe can increase confidence and optimism worldwide, it would be a successful conclusion to the Uruguay Round this year.

This is Australia's single most important trade objective.

President Clinton has made reaching an agreement a top priority and asked Congress for an extension of his authority to conclude the negotiation.

The French Government appears to have recognised the importance of concluding the round. And I particularly applaud the decision of the Japanese Government to offer last weekend a significant package of tariff cuts as part of the round.

It defies logic that the US and the EC and Japan, so close to agreement, with so much to gain and with a clear choice between cheering on a world recovery and stimulating their own trade, or puncturing recovery and encouraging the decay of the trade rules which have created the modern world economy, will let the opportunity pass them by.

But we cannot take a successful completion of the Uruguay Round for granted. In fact, there are forces at work which may mean that the Round will simply fade away.

Certainly we will do all we possibly can to advance an agreement, and already our Trade Minister Peter Cook has arranged a meeting of the Cairns Group at the end of June to register the concerns of fair traders in agriculture.

But the deadlines are now real ones and there is no guarantee that they will be met.

We must have by the end of this year an agreement which can be submitted to the US Congress, which effectively means we need to see real progress by the G7 meeting in Tokyo in July.

Over the last decade both our countries have greatly benefited from the mutual tariff reductions and other liberalisation undertaken as a result of CER.

In the decade since we signed the agreement trans-Tasman trade has tripled. The total value of investment between our two countries has increased nine fold.

We have continued to benefit from the free movement of people between our two countries, based on the Trans-Tasman Travel arrangement which does more than anything else to unite us.

Today several hundred thousand New Zealanders are living in Australia, and might I say, the issue of social security accounting aside, they are contributing a great deal to the economic and social life of Australia and strengthening the bonds which bind us.

In the development of our economic relationship we are now entering a highly significant new phase.

We are still working towards greater economic integration, with important achievements in prospect in areas such as the recognition of occupations and mutual recognition or common standards in goods. We have also made substantial progress in developing new arrangements to facilitate trans-Tasman passenger movements.

But we both recognise that the main game is now our integration in the Asia-Pacific region - a point which Mr Bolger put forcefully and succinctly in his Tokyo speech earlier this month.

The new CER phase of integration of standards and certification has important implications for our integration with the region, as I shall explain later.

My conviction that the 15 member APEC group, which comprises the major economies of the Asia-Pacific region, is the right vehicle for Asia-Pacific integration is based on a few fundamental facts.

The first is that North America and the Western Pacific are infinitely better off if they work together than if they drift apart.

North America is still East Asia's biggest export market. And East Asia is rapidly becoming more important to the United States.

At the same time the East Asia region is accounting for an increasing share of both world trade and world output.

This has been an extraordinary, historic shift - one of inestimable importance for the conduct of world affairs. Yet it has by and large occurred in advance of the sustaining net of understandings upon which trade conflict can be controlled.

This is why we see today a great contrast between the mutuality in the actual trade pattern, and the acrimony in the trade rhetoric.

In reality it is a great cooperative enterprise which is lifting us all up.

In the rhetoric it is a bitter battle for crumbs.

Given enough time, enough ill will, enough misunderstanding, and the rhetoric will threaten to overwhelm the fact.

So there is a contrast between the sophistication of the success of commerce in the region, and the rudimentary nature of the political nets which sustain it - a contrast which threatens some day to threaten the underlying process of integration, and which gives life to the mistaken idea that East Asia can go its way without North America, or North America without East Asia.

This is the fundamental reason for the importance of APEC. But there is another reason too; and that is that APEC alone is capable of becoming the forum for arranging the next great leap in trade in the region, for improving on Uruguay Round outcomes to enhance trade in the region.

As I told a conference in Sydney in February, we should be seeking as our goal an integrated market which includes Australia and New Zealand, the ASEAN countries, the three Chinas, Korea, Japan and North America - a market of two billion people producing half the world's output, bound together with harmonised trade rules, harmonised investment rules, harmonised standards and certification, and an agreed way of settling disputes between members.

It would be a market where trade between its members already accounts for two thirds of their own trade and where the total exports of the region already account for 40 per cent of world exports.

It would be an integrated regional market which had a place for inner markets like the CER and ASEAN's AFTA, and the North American NAFTA, but which nonetheless works towards commonality and minimum restriction in all areas in which these can sensibly be advanced.

We could look at the possibilities for sectoral trade liberalisation, when the results of the Uruguay Round become clear.

But quite apart from tariff changes, we ought to be able to achieve progress towards harmonisation or mutual recognition of food standards, consumer electronics and labelling.

We ought to be able to work towards an arrangement where our different approaches to competition, company law and business practice are less of a hindrance to trade.

We ought to be able to agree on investment principles to encourage and facilitate the vast growth of investment between APEC members.

And we ought to be able to set up a mechanism for talking through trade conflicts between members.

We should be able to do all these things and more because they all share this characteristic - it is very easy to imagine how many industries and how many millions of people will be better off if we do them. It is much more difficult to imagine which industries and which people in the region will be worse off.

All it takes is mutual agreement that it should be done, and the time and intelligence of governments to decide on appropriate standards, the appropriate forms of mutual recognition, the appropriate harmonisation of conflicting rules.

It is something Europe is already successfully doing.

And it is something Australia and New Zealand are beginning to succeed in doing.

While the task is obviously much easier for our two countries, New Zealand and Australia can be a model for this process of APEC-wide liberalisation and harmonisation.

We have already come a very long way since 1983, not only in terms of reducing bilateral barriers to goods and services trade and investment, but also in creating an appropriate business environment for Australian and New Zealand companies.

For example, under CER we are undertaking a significant business law harmonisation exercise and we are actively harmonising our customs and quarantine arrangements. In some areas - such as our 1988 Trade in Services Protocol - CER is at the cutting edge of international trade policy.

A particularly good example of the way in which CER can reinforce what we want to do regionally is in the area of standards.

Five years ago we signed an agreement on technical barriers to trade which encourages the harmonisation of standards and certification procedures.

Further work is underway between our two countries.

Our Cabinet decided at the beginning of this month that we should go ahead and do more work on the mutual recognition of regulations relating to goods and occupations and on the development of joint standards.

Our National Food Authority and your New Zealand counterpart are now actively working towards the establishment of a single standards setting system for Australia and New Zealand.

So Australia and New Zealand have shown that administrative impediments to trade can be reduced or eliminated, and that it is worthwhile to do so.

When completed, our integration will be a model of the success of two countries in making trade between them nearly as simple and uncomplicated as trade within them.

We can bring to the APEC group some of the lessons of negotiated mutual recognition and harmonisation of standards which we are learning in the CER.

These are our intermediate goals, and the APEC countries have put in place processes which can help us realise them.

We have established an eminent persons group, for example, for which New Zealand has provided a secretariat.

I understand it is the intention of the group, which is chaired by Dr Fred Bergsten of the United States, to produce in good time for a meeting of APEC Ministers in November in Seattle some thoughts about how regional integration should proceed.

Then there is the preparation for the Ministerial meeting itself, which many APEC governments are giving a good deal of thought. My own feeling is that we need to adopt at that meeting some sort of framework agreement which outlines our goals, and also an action plan or schedule which will guide our work over the next few years.

Last year I suggested that a process of periodic meetings of APEC leaders would also help to stimulate a stronger sense of regional commonality and mutual interest, and I have been delighted by the positive response of many APEC members.

I think these are good medium term goals, and of course they beg the question of what our longer term goals should be. As I say, we would certainly encourage progress towards an integrated market, and an integrated production zone - an Asia Pacific Economic Community.

Perhaps some day it will be relevant to think about a regional free trade agreement - and by this I mean an agreement open to all APEC members, which covers a high proportion of our trade, and which commits all of us to substantial liberalisation beyond that already agreed globally in the GATT.

As parties to a very successful preferential arrangement like CER neither of our two countries can claim to be opposed to preferential agreements in principle. The United States, Canada and Mexico are building their own preferential free trade areas, as are the ASEAN countries.

But I do think the issue of whether a regional preferential trade arrangement could one day be given serious consideration can be postponed until we are very much further down the path of open economic integration and of creating an Asia Pacific Economic Community.

The practical and theoretical problems of creating a region-wide free trade area would of course be immense.

We need a good deal more practice in economic cooperation before we contemplate something so ambitious: something that would change the political as well as the economic configuration of the globe in fundamental ways.

I remain utterly convinced however, that a selective trans-Pacific free trade area would fatally undermine the most fundamental reason we are pursuing APEC, which is to knit together the North American and East Asian economies.

The sort of thing I am arguing against is the idea which the United States seemed to be seriously considering last year of a network of bilateral preferential trade agreements which would align some Pacific trading nations against others.

Whatever slight trade advantages there might be for individual players on this side of the Pacific a link with NAFTA would to my mind be at the expense of and completely overwhelmed by the strategic damage to APEC.

Earlier today in Wellington I said that Australia and New Zealand stood on the threshold of a new era in our history. We have the opportunity in this decade to integrate ourselves with the fastest growing economies in the world, and in so doing lay the basis for long term prosperity.

As never before it seems to me very much a matter of making our own history, seizing our time, in our part of the world.

In Australia more than a decade ago I, and some of my colleagues, began to imagine that Australia could become a successful manufacturing and trading nation: that we could develop a creative and co-operative industrial culture: and that we could seize our opportunities to be a substantial player in this most dynamic region of the world.

It seemed to some of us that, contrary to the wisdom of generations, Australia need not remain just an exporter of commodities - that we could do both: we could continue to export the agricultural and rural products and the minerals, and we could make things for export.

These thoughts very rapidly moved from the realm of imagination to that of necessity.

Like you, we learnt in the 1980s that there was no choice but to radically change our financial and industrial culture, to re-orient ourselves to Asia and the Pacific, and open ourselves to world at large. To add value to our products.

Our economic survival depended on our willingness and capacity to do these things.

This is the story of the last decade. It will be the story of the next. In my view no previous generation of Australians or New Zealanders lived in a more exciting era, or one on which their countries' future so depended.

Along the way New Zealand and Australia have at times chosen different paths. But the goal has been the same. And it remains the same. It is no less an imperative now than it was a decade ago.

Yet for all we do as Governments, our success or failure ultimately depends upon our people - the degree of their enterprise, the level of their imagination and skill, their willingness to co-operate, their capacity to change.

In Australia it is the changes we have already made which convince me of our capacity to change in the future.

Our successes in the arena of industrial relations, the transformation of workplaces, the move from an adversarial culture to a co-operative one - these have been revolutionary changes in Australia.

That is one example. The proliferation of new dynamic small to medium sized businesses is another. McKinseys recently identified in Australia 700 companies born of the new manufacturing and export culture, making products Australian companies have never contemplated making, succeeding in markets where Australian companies never contemplated going.

I have no doubt that New Zealand could point to similar achievements. On both sides of the Tasman it seems to me we can take considerable pride and confidence from the proof of the changes we have made, and the rewards which are now beginning to flow our way.

And we might also take as a measure of our capacity to meet the challenges we face the progress we have made towards Closer Economic Relations between Australia and New Zealand. CER, too, has been a response to the challenge.

CER will give us a better chance in the world. And if, taking heart from our success with CER, we push on with the task of creating an Asia Pacific Economic Community, it will have given us much more than that.

It will have given us the basis of prosperity and a good society: it will have given us the confidence that comes with knowing that what we have we earned by dint of imagination and courage, and by believing in ourselves and in the future of Australia and New Zealand.

Thank you.