



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
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PM: I will try to give you an indication of some of the things which I discussed this morning with the Prime Minister and members of the Government. The first thing to say is not enough people in Australia have understood the potential in the relationship with Thailand. Whatever the reasons, I would like my visit to be the moment at which Australia and Thailand begin to pay each other more attention. Whatever the reasons in the past, things like the level of investment, while increasing does not do justice to the relationship which we might otherwise have. We need to take steps to maximise the conditions in which investment can flourish and trade opportunities develop.

This is the second largest ASEAN economy, soon expected to be the fastest growing. During our discussions this morning the Prime Minister and I and members of the Cabinet, his Ministry and my party discussed the relationship in the broad, the elements in our bilateral relationship, its prospects, we discussed APEC, developments in the region, security matters, and I have got further opportunities to discuss some of these questions tonight with the Prime Minister over dinner.

We agreed upon a number of things also today. One important thing was an agreement to establish a new ministerial commission which will give us for the first time a regular ministerial level forum to discuss ways of expanding trade and investment links. You might remember, though Australia has now with a number of countries, two others - Japan and Indonesia - a joint ministerial forum. This will be our third with Thailand and it means that many of the, if you like, intra portfolio points can be raised in this context. For instance, I raised today questions about Qantas's growth potential out of the hub of Bangkok and the inhibitions it faces. Such a question could be raised in a ministerial council context. At the same time, the Prime Minister raised

with me barriers to Thai imports into Australia. This would be typical of the kind of matter which would be discussed there.

I also indicated today and you may be aware that Bob McMullan, the Minister for Trade, will lead a major Australian trade and investment mission to Thailand later this year. Our trade is growing especially in manufactures, but we can and should do better and I think this trade mission will help enormously.

We decided today in what I thought was an important decision to explore further what prospects there might be for the establishment of a link between the ASEAN Free Trade Agreement and the free trade area of Australia and New Zealand. So that is a link between AFTA and CER. We had a reasonably long discussion about this point and we have decided that I will raise this matter formally with New Zealand and I was invited by the Deputy Prime Minister to raise the matter formally with other ASEAN states, other members states of ASEAN. In the discussion I made the point that the combined GDP of ASEAN which is now an important regional trade area is approximately the same as the combined GDP of Australia and New Zealand. So, it would be a doubling of that market in terms of access. So, we have decided to pursue discussions around this point.

I was also very pleased with my discussions with the Prime Minister and the Government about APEC, about the prospects for multi lateral resolution of trade problems and expanding growth and trade opportunities on a multi lateral basis as distinct from the problems of unilateralist approaches and bilateralist approaches and, I think, our understanding of APEC is getting closer, we see it having quite an ambitious potential and I am looking forward to further discussions tonight with the Prime Minister about the November meeting of APEC and its agenda in Indonesia later this year.

I was also glad I raised with the Prime Minister the question of Cambodia. The fact that we have the United Nations sponsorship of the Peace Accords has produced an outcome of great satisfaction, but work remains to be done. The Government has to succeed in growth development and the equitable government of the country, but I was glad to have an assurance from the Prime Minister that Thailand will not be supporting any individual factions in Cambodia. We articulated the importance of isolating the Khmer Rouge from trade and income and to encourage them to be part of the processes of government in Cambodia including, of course, the incorporation of the Khmer Rouge into the army of the Royal Cambodian Government.

I might say I am meeting General Wimol this afternoon because we have a long standing defence relationship with Thailand and the Thai army is an important element in Thai society.

Finally could I say, the Prime Minister invited Australia to participate more fully in other regional growth areas of this part of the world and commended Australia on its aid program, most particularly mentioned the Friendship Bridge and the enhanced trade and investment opportunities which it will bring to the region.

J: Prime Minister, what signals did you get from the Thai Government as to their sounding with other ASEAN nations about the prospect of a greater Asia-Pacific free trade zone?

PM: This is in a link between AFTA and CER. The Deputy Prime Minister told me in having raised it informally with member states of ASEAN he had received no indication other than a positive one from his efforts. He said it had not been formally discussed at the formal meetings of ASEAN, though he had discussed it informally with ASEAN member states and governments. But, in enjoining us to do the same, he believes Australia could play a role itself in opening up this discussion and just making the point that the economy of Australasia is as large or larger than the combined GDP of the ASEAN member countries. So, in a regional freer trade area, we would be extending the concept of a free product market between Australia and New Zealand as they would be extending the concept of freer trade and diminished tariffs between the ASEAN member countries.

J: And do you have a time frame all over which you think this might be achievable?

PM: No. We have spoken of it now over the last six months or so. You might remember Deputy Prime Minister Supachai raised this publicly in Australia during his visit and we will progress it I don't think with any time frame in mind. The other issue which the member states of ASEAN need to discuss is the rate of decline in tariff protection which is now scheduled for a 15 year phase down. I think, there is becoming a general view with the outcome GATT that that time profile is out of sync with GATT commitments and also the natural economic expectations of these regional economies.

J: How important would such a move be for Australia and its trading prospects in the region?

PM: Where ever we can extend the notion of freer trade we ought to. We have done this now over a long period of time with New Zealand. We have an open goods market and we have now a much more open services market and to open that opportunity up further in countries with a GDP of roughly the same of our own, obviously, extends market opportunities for Australians and Australian business, it would further underpin our trade efforts in the area and more rapidly lead to the prospect of higher economic growth and more employment.

J: ... context of APEC, would you see this as a sub-group of APEC initially which could form the nuclei of a broader and more comprehensive free trade region for the APEC area as a whole?

PM: I think APEC will be an umbrella which covers a number of free trade areas. The most obvious one being the North American Free Trade Agreement and area NAFTA, it already covers NAFTA, CER and AFTA, it is a matter of whether we could make AFTA and CER fit which would just extend, if you like, that free trade area, but within the compass of greater multi-lateral, if you like, a broader multi-lateral frame work with APEC.

J: Do you see the integration of AFTA and CER eventually allowing trade as free as it is now between Australia and New Zealand?

PM: These are complementary economies, there are higher levels of protection extant in these economies than there is in Australia. There would need to be some understanding about the pace with which that changed. In other words, were we to, let's say have such an agreement this very day, the agreement would only be of benefit where the trade liberalisations had already occurred. If they are going to occur over fifteen years it would mean there would be benefits, but over a much longer time frame. So, I think there is two elements to this. That is, quickening the pace of tariff reductions within the ASEAN free trade area and at the same time then seeing what complementary benefits there would be in Australia and AFTA doing something together.

J: Prime Minister, if I can ask a domestic question, unemployment figures came out today suggesting that another fall in unemployment down to 10.3. How soon do you think Australia will see unemployment back in single digits?

PM: I don't think I can say precisely when because of the complication of the participation rate which has been dancing around now for the last couple of years. So, you could actually see quite a pick up in employment, but a shift up in the participation rate which would still leave unemployment in double digit figures. It is my hope though that consistent employment growth will consistently chip away at the unemployment level and with reasonable participation rates see unemployment slip down under 10 per cent.

J: The OECD report warned that the level of unemployment benefits are reaching a stage where they are a disincentive to some people to get jobs. Is that going to be addressed in the White Paper?

PM: The answer is yes, it will be. I know something of the OECD report but I have not read it. We are looking at a set of incentives amongst other things in the White Paper context which would encourage people into

work, particularly part time work, but I think all that will be revealed in due course.

J: The OECD has also said that Australia is suffering from a narrow and declining ... base and suggested that broader based taxes... It is basically a favourable report ... a concern to the bureaucracy certainly in Australia.

PM: It is part of this, sort of, euro centricity of the OECD, but basically they are into bigger government than we are. Bigger government in Australia in the 1970s dislocated Australian private investment and getting a smaller but better government which is what Australia did through fiscal consolidation in the 1980s leaves us way outside the OECD pack in terms of fiscal effectiveness. Therefore, the frame of reference of the OECD is not the frame of reference of Australia in this respect. Ours is an ambitious experience way beyond the general OECD experience and these writings would come with the context of the OECD experience. Were the OECD general member countries able to consolidate their fiscal scene as Australia has and make its outlay programs more effective, you know, it is a turn up for the books to have the OECD arguing for higher taxation. I spent most of my decade going there when they were arguing for lowering taxation.

J: ... after compensation with Australian authorities though, it must reflect there ...

PM: No, it doesn't. You can never assume that. I like the OECD, it is a useful body, but no OECD assessor could ever have anything like the fiscal experience of the Australian Cabinet and therefore it is like most OECD reports - you take the parts which are useful in our experience, but the notion that Australia should go down the route of consumption taxation to build a second tax base in the tax system, to dislocate Australian private investment would be ultra-vires of our interests in the next fifteen years.

J: What about their comments that we should also follow the New Zealand experience on labour market reform and having to move away from ...

PM: As I understand it, the OECD said that the labour market changes of our new industrial relations act provides a frame work which would assist in flexibility. I think that is important. I don't know whether too many of you read the Australian Magazine last weekend on Britain in a piece by Phillip Knightley where he recounted women working seventy and eighty hour weeks for the equivalent of \$120-130AUS a week. Yet, the managerial classes of Britain had enjoyed very high salaries and, of course, there was great wealth being generated in their stock market. Australia will not go down that route, that is why it unashamedly and unambiguously will always put a floor under these

so-called processes of flexibility which denies the opportunity of some people to make poor people poorer and hence the importance of the award system as a base for enterprise flexibility. In other words, what Australia is doing in this respect is superior to what is being done in some other countries and the frame of reference again is euro centric and needs to be seen against the broader aspirations of a social democracy of the kind fashioned by a labor government in the 1980s and not the Thatcher government of Britain for instance. Thank you

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