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## PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP  
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**PM:** This is my third visit as Prime Minister to Japan, but it will be my first official visit and, in fact, the first official visit of any Australian Prime Minister for nearly a decade. So I think it has a symbolic as well as a working dimension to it.

You know this relationship with Japan has been vital to Australia and remains vital to us, which is a view which I have taken strongly now over 20 odd years in my own relationship with Japan and its companies and its governments. It is the second largest economy in the world. It is our largest trading partner and it is the engine of economic growth in East Asia.

Japan actually represents 70 per cent of the entire East Asian economy. So the size of it should never be underestimated. What happens in Tokyo, in fact, shapes what happens economically in the region and will matter, always, to Australia and to our own lives and the sort of lives our children will have as well.

More than ever, and more than any other country in the region, Japan will be critical I think to our economic growth and our ability to create high quality, interesting jobs for ourselves and our children.

Now, obviously, this visit is coming just about very close to the last days of the 50th anniversary of the end of the war, which gives some other dimension to the visit. The only thing I will say to you about that is I think we should never forget the suffering and cruelty of that war. But I think we need to remember, also, what has happened in the 50 years since and despite very different cultures and the legacy of the war, we have, in the unlikely event, built a remarkable relationship with Japan - one of inestimable value to Australians and one which has, in

very large part, also not only underpinned their post-war economic growth, but underpinned Australia's as well.

So the relationship has grown from enmity through development of trading links. It is now a very broad political and economic relationship with growing, people-to-people, ties. Last year we had 720,000 tourists coming here from Japan and we have now exchanged 10,000 school exchange visits. So there are a lot of Australians who live with Japanese families and the converse being the case here.

So I want to use the visit to reflect on that relationship in all of its dimensions and look to the future - where we are going in the region. I will be having talks, obviously, with the Prime Minister. Mrs Keating and I will be very honoured to be received by the Emperor and the Empress for an official lunch. But with the Government I will be meeting, not only with the Prime Minister, but with the MITI Minister, Minister Hashimoto - who, of course, I knew well in my Treasury years when he was Finance Minister - Foreign Minister Kono and other key Japanese political, business and financial leaders.

I will also be visiting the Hodogaya War Cemetery where I will lay a wreath to the 278 Australians who are buried there and the others who died in the war.

In my discussions with Japanese leaders about our bilateral relationship, I will be focussing on the things of economic and political relevance in that and, also, the economic and political relevance in the changing global environment. We will discuss regional, political and economic developments, especially APEC. And you know that Japan is hosting the third APEC Leaders meeting in Osaka in November of this year and I will be urging Prime Minister Murayama and his colleagues to work towards an ambitious and solid set of outcomes in Osaka to carry forward, in a practical way, that historic declaration which was agreed to at Bogor, in Indonesia, late last year.

So, in all, I see it as a chance to, again, get to understand Japan's current thinking better, to advance our bilateral relationship and to discuss these multilateral matters between us, particularly in this fast growing area of the world, but multilateral - both in the strategic and in the economic sense - and, of course, with APEC.

So I might leave it there and take questions.

J: Prime Minister what is the message that you will be giving the Japanese about the trade dispute with America and will Australia be taking sides on that?

PM: Well I think the side we'll be taking is Australia's side. That is, we want Japan to continue to open its markets. I think the Americans think that

too. You know that Japan and the United States are both countries with very low tariffs. We are not talking here about tariff barriers, we are talking about informal barriers and they are of as much interest to us as they are to the United States and many other countries. But I think we would like these disputes settled multilaterally, not unilaterally or bilaterally, particularly in deals which may harm third countries, in which case in motor vehicles and motor parts, ourselves. So, yes, we understand the interest of the United States in trying to eat away at that trade surplus by getting better market access. But one of the stories about, particularly the United States which is the largest trading entity in the world, wherever US investment goes, trade follows. In Europe where there is very strong US investment, the United States doesn't have trading problems. It has it in Japan where its investment is nothing like as strong as it is in other parts of the world and that gets you back, again, to multilateral solutions like APEC. Trade facilitation, opening investment policies, seeing a real and growing presence of American investment in the Japanese economy and its manufacturing and service sectors is the way, basically, to deal with these problems. So, again, all pointers point to multilateral solutions and not bilateral ones.

J: Will you be giving the Japanese Government an assessment of what affect on Australia either them acceding to some sort of bilateral arrangement with the US would have, or the US sanctions being imposed - how either of those scenarios would affect us?

PM: Well you might remember when I went there a few years ago, I said Australia wouldn't be part of any trade agreement which would disadvantage Japan and we will be reminding them of that and saying we would appreciate the reciprocity, well if you like reciprocal, sentiments. That is, they too take the view that in any settlement of these disputes they don't impact on third countries like ourselves, particularly countries which have a long and enduring trade and commercial relationship with them and who have an important political relationship with Japan. I mean I don't think anyone should underestimate the strength of the political relationship Australia enjoys with Japan, or how useful it has been to both of us in the recent past. So all of these things, I am sure, will weigh on their minds.

J: If there are to be real solutions, though, the structural solutions are going to take a long time and yet you have got, obviously, a lot of impatience building up in Washington. Isn't there a collision of two different timeframes?

PM: Well the problem underneath all of this is the savings balances. Japan is a very strong saving country and the United States isn't and if you look at Japan it has got a very big investment in their capital stock, in motor vehicles, in quality, in price and that while there has been quite, you know, substantial changes, really substantial changes in the US

motor industry, by and large if you look at the US/Japan relationship in its totality, you are fighting all the time against the tide of those savings imbalances. One of the ways that will change, of course, is opening up more access in Japan and Japan spending more on domestic demand, improving their infrastructure, their housing, these sorts of things. That would tend to run down their savings and run some of those surpluses away. But the other way where this is going to be worked out is in the trade and investment opportunities in East Asia for the United States and Japan and you can see just in the last six or seven years how much there has been a weighing off by the Japanese of their dependency on the US market as they have grown market share in East Asia. All the more reason why APEC becomes important and the Uruguay Round. That is, opening up opportunities in these markets for the United States to invest and for Japan to invest into trade and the same for Japan. Now you know that the United States has a very large trade deficit with Japan. But it is not as large per capita as the trade deficit we have with the United States. I mean we have a much larger deficit with the United States, than the United States has with Japan on a per capita basis. But we have a very large surplus with the Japanese. So if the United States ends up with a very large deficit with Japan but other surpluses around the area, it matters much less then in the American current account than it would matter today or mattered a few years ago. So that is why given the fact that the propensity of people to change their savings habits is slow to happen, then this is going to be particularly true of the United States one feels and it will take a while, also, for the Japanese to change their habits. That is, to start running down their savings and spending on domestic demand and infrastructure. We have got to create other trading opportunities and better trading environments for these large relationships to be somewhat, you know, complemented by other trading opportunities and you can see this very obviously in the statistical change in the relationship between Japan and the United States and Japan's reliance upon the United States market. That has changed a lot in the last five years and I think it will change a lot in the next five years.

J: Prime Minister, if you have got these two giant economies trying to resolve their trade differences by way of trade war, doesn't that undermine the very basis of APEC and put into doubt the Bogor vision?

PM: Oh, I don't think that is right at all and you would have noticed in the Financial Review today, Winston Lord, the US Assistant Secretary of State for East Asia and Pacific Affairs, talking about the importance of the Bogor Declaration and how it ought to be advanced in Osaka. In other words, you know, in what is another one of these disputes. I mean we had the autoparts one a couple of years ago and now it is fully built up vehicles and these sort of frantic 301 actions and the rest. Then you have a high ranking American official coming out talking

about the global, or the blanket, solution - the multilateral solution - tends to, I think, reinforce the point I am making. That is, that APEC is one of the good things on the horizon given the fact that the G-7 is doing nothing about any multilateral solutions to any further advancing of reducing trade protectionism worldwide. The only group doing it is APEC and I think Lord's articulation of that argument in Tokyo, a day or so ago, underlines its importance.

J: Prime Minister do you have any evidence at all that Japan has taken steps in any way to advance the vision of the Bogor Declaration since it was made?

PM: Oh, yes, we have had a couple of quite good officials meetings at this point and they have gone quite pleasingly for those of us who have been interested in really making certain that Osaka produces a good outcome and I think you will find that also the influence of Indonesia will be important in this, as President Soeharto was not only the host, but, of course, the host during the formation of the Declaration - in a sense, passing on the baton to Prime Minister Murayama - the strength of his own position will not be lost on the Japanese either.

J: Prime Minister why did you agree to accept a Honorary Degree? What is it for and would you look forward to being known as Dr Keating afterwards?

PM: Well I am not particularly interested in labels and handles, I think you would have worked that out by now. It's something which is an honour to Australia, not simply to me and it is basically about our role, and my own within it, in the creation of a multilateral framework for trade and investment in the Asia Pacific and finding, if you like, structures which include Japan and take account of Japan's place in the world and I mean I think that is the antecedence of it and I am more than honoured by their thought in so acknowledging that work in this way.

J: Mr Keating you talk about encouraging the Japanese to a set of ambitious and solid outcomes for Osaka. But how do you benchmark that? I mean it was relatively easy with 20-10 and 20-20 at Bogor, how do you advance that agenda, what is the benchmark, what is the minimum?

PM: Well, there are issues there about coverage for instance: how broad the coverage is, whether there are exclusions or exceptions, how we advance the process of national country offers, these sorts of things will be the issues of substance in Osaka. It won't be a simple headline.

J: So, it is much more technical?

- PM: The whole thing is technical. Look at the Uruguay Round. It took seven years to happen and this will happen much quicker than that.
- J: Mr Keating, Dr Mahithir is foreshadowing some fairly dire consequences of the debate over the Spratley Islands, will you be talking to Mr Murayama about the Spratley's and if you are what sort of position will Australians have on that issue?
- PM: I don't know. It may come up, not about the Spratley Islands in particular, but just about the fact that the very obvious point, that is, that China is emerging now as a major economy and a major force, it has always been a major force in Asia, but it is now emerging as a greater force with a stronger economy and all the more reason why this is a great opportunity to multilateralise the interests of great countries like China at this point in their economic history. I think that is the main point.
- J: Do you see this as a potentially volatile situation?
- PM: I think Prime Minister Mahithir was simply speaking hypothetically. He made that point clear himself about problems that can arise. Well, we know problems can arise but, I think, the important thing is what we do about setting frameworks up so that tensions between countries are lessened, opportunities are increased.
- J: Prime Minister, is this a good time for you to be leaving Australia politically given that opinion polls suggested the Budget hasn't really gone over all that well?
- PM: You think I should stay home, maybe sit around in the office there and talk to you on the telephone or something? Look, I am pretty happy with the Government's progress. I think, what the Budget reveals is that the Government is the only Party in this Parliament that has got a set of structured policies. The change in superannuation will be important to us all when all of us in this room are long gone from Canberra, long gone from active duty. That superannuation change will sit there in the service of the nation through into the next millennium and also getting Australia back into surplus marks us out amongst countries who have got discipline with low inflation. They are things, I think, that were important - taking the pressure of interest rates - these are all significant changes and the notion, in that context, that the Government has got, if you like, long term difficulties beating somebody who has got no policies. I mean, John Howard keeps invoking the fifth amendment, he won't own up to any policies on the basis that it might incriminate him or I won't show my policies because that Mr Keating might pinch them. I think the public are going to say 'hey, cut it out, what are you playing us for?'

- J: So, if you think the Budget is going so well and given the fact that interest rates have been coming down and unemployment has been dropping, given all of that, are you then disappointed or can you understand what ...
- PM: No, no, I think it is solidifying the Government's ... it is like the base note and the treble note, they both take the same time to play, but which is the one that has the impact on you? Let's call that big thud from the Budget, it has been well received out there in terms of the political weight of it in the community, which is good for confidence in the country and good for the Government.
- J: But it is not showing up in the polls as being well received.
- PM: I think it probably is. It is just making our two Party preferred vote just more solid, but I have said to you before, it is only a politician who can read the hieroglyphics of the polls, never, rarely ever journalists.
- J: Mr Keating, is the Government still fully committed to the sale of ANL?
- PM: That is a process which is on at the moment. Laurie Brereton has touch with it. I don't have touch with it and haven't had for the last couple of days.
- J: Are you concerned by the threat by the maritime unions though, that you can not sell ...
- PM: To be honest, I haven't been across that.
- J: Is the Government going to call an inquiry into the Hindmarsh Island affair?
- PM: I am not here to go around the world for sport. I was here basically to talk about the visit to Japan.
- J: Prime Minister, to Japan, next week we will have another alarming balance of payments number.
- PM: Are you sure it is going to be alarming?
- J: Are you sure it is not?
- PM: But, you are making the statement. I'm not.
- J: OK, I'll bet you it is alarming. I bet it is well over \$2 billion. No?
- PM: Well, hype and hyperbole is the stock and trade of the '7:30 Report' these days. OK.

J: We have a situation where you can see that the solutions to these structural problems are not quick.

PM: No, they are not quick no.

J: Meanwhile the Japanese face the prospect of perhaps becoming less of a customer of ours for commodities that have been implicit in their having a big domestic manufacturing base which seems to be moving, off shore, at some speed. In the medium to longer term, what does that say about our balance of payments?

PM: The thing to look at is, basically, the trend improvement in exports. Ten years ago we exported 13 per cent of GDP. We are now exporting 22 per cent, but more I think, it might be 24 per cent from memory. We are a long way towards doubling our exports to GDP. Japan's industrial structure has changed, it has moved out of certain industries, but other countries have moved into them. Korea is an obvious one and where now, in the last three months, Korea has become our second largest trading partner because we are exporting products into that market. You know at Toyota, I had the pleasure of opening the plant there about six weeks ago in Victoria, the day that I went there they signed a \$400 million contract, I think from memory 30,000 cars, to sell into the Toyota worldwide dealership. So, we are getting the benefits of a change in the structure of trade with Japan - that is, in the so-called process of hollowing out, putting their manufacturing facilities in other places - and a shift in the nature of the trade where in certain trades it is now, countries like Korea, are doing more than they are doing. So, we are picking up the business there even if we are losing it in Japan.

So, the main thing is: What runs our capacity to deal with the current account? Answer - savings and investment and competitiveness. The savings are the point we tried to cover in the Budget. The competitiveness, I have been telling you recently and I will repeat again, we are 40 per cent more competitive now than 1983, that is with driving the exports, R&D and education are driving the product innovation. As that Treasury graph shows very obviously in Statement two, you can see where the call in the public sector in the 1970s and the shift in the profit share completely dislocated Australian investment and we ended up with a big fall in the capital stock. That started producing the current account deficits for us. Six per cent of GDP in 1980 and that started building up the debt and it came from a merchandise trade deficit. We are now closing that up by a big shift to exports, what we have now got to deal with is the block of old debt. And, in part, we are dealing with that by the big stock of Australian assets off shore which Statement Two was also quite instructive about. We have now got \$136 billion of assets off shore against \$160 billion of overseas debt and, of course, as I have said and the Budget papers also say, from the superannuation changes alone, by the year 2000 we



should have an additional two per cent of GDP in savings and in the Budget probably more. So, in terms of medium term savings change, it is really a very substantial one. That with the competitiveness should basically see that change, but of course, in any investment cycle like this, you will always see a jump in producer goods and by and large they are things that we don't ourselves make and we will always have a great bubble of those in the current account numbers and, I guess, we will have to understand that as they come they will be producing goods into the future. At least, they are going to give us a better rate of return than the investments we had in the late 1980s where we were using up savings, chewing up savings, but not for a great return in the current account.

J: When will we see a stabilisation of the current account deficit under the Keating strategy?

PM: You won't see it without a longer term change to savings which we have now, I think, fairly solidly got into place and you won't see it without the continuing entrepreneurship and access by Australian business to markets around the Asia-Pacific in particular. That is what the trip to Japan is about.

J: Is there a message in the polls that some of the Budget initiatives like the savings strategy are going to take a while to sell to the electorate?

PM: I don't think so. I think the public were interested to see that the Government actually put something solid under the economic growth we have been having. They wanted to see a weighing off of pressure off monetary policy onto fiscal policy. You have seen the bond selling program dropped from \$21 billion last year to \$6 billion this year which is, to call it a weighing off, is the understatement of the century. A \$15,000 million reduction in the bond selling program, is it any wonder long bond yields dropped. And, I think, they think a good and solid thing has been done and they have put that in their thinking and, as I say, it just solidifies the Government's two party preferred vote.

J: The selling of it isn't over, you had two weeks of very ...

PM: Yes, and I think the Government had a very good two weeks. You know that by nearly everyone you speak to. They thought the Budget was well received. Frankly, John Howard, curling up and making himself the smallest target possible, by saying nothing, as I say invoking the fifth amendment saying 'I won't talk about policies because they might commit me or incriminate me and I think I can go to an election with no policies', I think he is kidding himself. But, the public know he is kidding them.

J: Well, John Howard says everyone he speaks to though in main stream Australia says that they didn't like your Budget?

PM: Well, if you believe that, then you believe in fairies at the bottom of the garden. The fact of the matter is the Budget was, I think, very well received around the country. In fact, most everywhere I went, be it Perth, Adelaide, Brisbane, running into all sorts of people, they thought the Budget was well done. The thing is, there can be no credibility and honesty in politics without policies. That is the foundation touch stones of credibility and honesty. And, a party which wants to go to a poll, as the Liberal party does, without policies will be neither credible nor honest. Thank you.

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