13

PRIME MINISTER

ADDRESS BY THE PRIME MINISTER, THE HON P J KEATING MP
LUNCH HOSTED BY JAPANESE BUSINESS ORGANISATIONS , TOKYO -
THURSDAY, 25 MAY 1995

It is a great honour to address you today and I thank you for the invitation you have given me.

This is not the first time I have spoken to these important organisations - and to many of you in this room, of course.

Among the people here are some who have been active in Australia-Japan trade for more than forty years.

Having been present at the creation of the Japanese economic miracle, you know what radical change involves. You know that the need for change goes on and on - so much so that those who have been making the changes could sometimes be forgiven for thinking that enough has been done. But you know that this is not a thought a country can ever entertain.

If you have been watching Australia, or dealing with us in recent years, you will be aware of the radical change which has taken place. The Australian economy has been completely transformed; it is vastly more competitive, more diverse and more integrated with the world and the region.

And you will also be aware, I trust, that the changes are still coming - that we have not entertained the thought that we have done enough.

Our old friends here know Australia's story. They have been part of it. A very important part of it, because the relationship between Japan and Australia which has developed steadily over the past 50 years, is an essential thread in Australia's economic development - and, of course, in Japan's.

But it is to those of you who are new to our relationship that I mostly want to address my remarks today.

Because I think we are entering a new, slightly uncertain, but very exciting phase in this relationship.

After the war ended fifty years ago, far sighted business people and political leaders in each country recognised the complementarities between our two economies and worked to build those links between us which helped, fundamentally, to fuel economic growth in both our countries.

Over the years these great business links - the iron ore, coal and other primary products - have continued to be central to our trade. But in the recent past new elements have entered.

Processed food, manufactures, high-technology and services have become increasingly prominent. Sophisticated products like computers, software, high-speed ferries and specialised medical equipment have joined the list of our exports. And more than 20 per cent of all international visitors to Australia, and 6 per cent of all international students in Australia, are now Japanese.

Our patterns of trade have changed as Japanese companies have begun to invest elsewhere in Asia, and we have begun to supply them in these "third" countries.

Developments like these clearly point the way to the future of our relationship. They reflect changes in Australia and Japan which are offering us new opportunities as our 50 year old partnership enters a deeper, more complex and rewarding phase.

The liberalisation and deregulation of the Japanese economy is one of those changes. That process is now underway, and I believe it is irreversible and in Japan's own interest as well as the world's.

I know many of you here, representatives of Japanese business, have been at the forefront of the demand for thoroughgoing economic reform and deregulation. I am sure that it is crucial for our Japan's future. But I have to tell you frankly that much more needs to be done.

The Keidanren, for example, has estimated that deregulation could deliver a net extra 740,000 jobs and increase the size of the Japanese economy by about 40 per cent over the next five years.

In Australia's view, these reforms have not yet gone far enough. But we are convinced that progressive implementation of reform will be a powerful catalyst to free dynamic forces in the economy. Japanese consumers will benefit.

And, reflecting smaller trade and current account imbalances brought about by higher levels of imports and domestic consumption, the yen will fall.

So when we urge Japan to maintain the momentum of reform we are not entirely altruistic. We know it will open up substantial new opportunities for Australian exporters.

Of course, it is up to Australia, and our business people in particular, to take advantage of the opportunities.

We know that Australian businesses have been heard to say from time to time that Japan is "too hard" a market to penetrate.

We would not be urging these reforms on Japan if we did not think Japan should be "easier". But Australian business would be foolish to turn their backs on a market of such a phenomenal size and where the rewards to be had from success are so great. Bear in mind that a percentage point of growth in Australian exports to Japan equals in value terms our whole current export trade to Vietnam.

There are obvious opportunities for our exporters: if Australian firms are sufficiently hard-working and persistent, and their products and services are of the highest quality - as many of them are - they should succeed, most obviously in such sectors as construction, foodstuffs and health and education services.

If the very real difficulties of the Japanese market still frighten too many Australian business people, it has to be said that the Australian Government does not have an antidote for fear. But the Government can help our smaller, newer exporters to find niches - niches in sectors of the Japanese market and niches in the regions of Japan. I will be opening a new Australian Business Center designed to address part of this problem later today.

But the fact remains we will all succeed more often and go much further towards realising the opportunities inherent in our modern relationship if Japan further deregulates its markets.

So what does Australia bring to the partnership?

To begin with, we bring one of the industrialised world's ten largest economies, a country rich in natural and human resources and a commitment over decades to a partnership with Japan.

We bring a real friendship for Japan with us.

We also bring creative policies and the determination to implement those policies.

Beginning in the 1980s, we recognised that Australia could no longer live well enough by exporting iron ore and wool and other primary products to the world while our manufacturing industries grew inefficient and lethargic behind high tariff walls.

But we changed. We slashed tariffs, floated our currency, deregulated our financial markets, eliminated import quotas and liberalised foreign investment guidelines in all sectors.

All this was done within the context of an unprecedented accord with our trade unions, under which we moved from a centralised to a more flexible wage-fixing system.

Some of the results of this revolution - because it was a revolution - in Australia are well known.

Last year we had the highest growth rate in the OECD - at five per cent - while at the same time corporate profits reached historic new levels.

And while inflation has been running at around two per cent for the past three years.

Some of the other results are less well known. They relate to Australia's competitiveness in the world.

Our international competitiveness increased by around 40 per cent over the past ten years.

We now have one of the lowest overall levels of taxation in the industrialised world.

Prime CBD rentals in Melbourne and Sydney cost less than in Singapore. Less than in Shanghai or Ho Chi Minh City, as well.

Living costs for expatriates in Sydney are lower than in any other major city in the Western Pacific. And, for reasons I hope all of you already know, or will soon know, Australia's "quality of life" ranked second out of the 41 countries measured in the World Competitiveness Report.

And we have not stopped. A country which abandons policy change abandons its stake in the race for the future. I will give you just three examples of changes we have made in the past 12 months.

A year ago, we took the decision to make a massive investment in the skills of our workforce. We directed programs towards training young people and the long-term unemployed.

We boosted our technical and vocational education system and made it more responsive to business - more suited to the modern economy in which the knowledge and skills of a country's workforce and its capacity to retrain regularly, are basic determinants of economic success.

The increased competition that has flowed from lower tariffs has made the Australian economy much more dynamic; but the primary influence has been on those sectors exposed to foreign competition.

To extend this quite fundamental change to the rest of the economy, we last month reached an historic agreement with our state governments to boost competition in our utilities and our ports, in our professions and our agricultural marketing authorities - in water, airports, government services - right across the domestic economy competition will be intensified. The result will be a much more responsive and dynamic economy and a significantly lower cost structure for business.

Australia's most single important economic challenge is to lift our savings performance. The need is manifest in a current account deficit that has been too large for the past 15-20 years.

We also need to lift our savings performance because, like Japan, our population in Australia is ageing: not as rapidly as Japan's because of our higher rate of population growth. But we still may see the proportion of our population aged over 65 increase from 12 per cent to 18 per cent over the next 30 years.

There will be a correspondingly shrinking proportion of the population in employment providing for those in retirement. The appropriate response to these changing demographic forces, of course, is to save and invest more.

This is what your government has done very impressively over the years.

According to OECD statistics, your public sector gross debt represents about 80 per cent of GNP. But the corresponding figure for net debt is just 8 per cent, a difference of about 70 per cent of GNP.

This difference is largely accounted for by the accumulation of assets, in retirement accounts.

We have taken up the challenge to increase our saving rates through measures tailored to Australian circumstances.

First, we have tightened fiscal policy. By international standards, Australia does not have a problem with a large amount of public debt on the books.

In fact, we have the lowest level of public debt in gross terms among OECD countries, and one of the lowest in net terms.

However, the reliance of our economy overall on foreign savings requires us to go further on the public accounts, and that is what we have done in this year's Budget. Our Budget will return to surplus in the coming financial year, and be in surplus without relying on asset sales and the like in the following year.

The second element of our savings strategy is directed at retirement incomes. A decade ago, we had only 40 per cent of our workforce in superannuation, or private pension provision. Today, it is 90 per cent. Today, our superannuation funds hold about $186 billion in assets.

We are going to increase contributions from around 5 per cent of income to 15 per cent by early next century. This will mean that every Australian person will be saving at least 15 per cent of their income. The result will be superannuation funds, private pension funds, of about $2,000 billion by 2020 - a pool of savings about double our GDP in today's prices. That is, 200 per cent of our GDP.

So in one year we have taken major initiatives on national savings, vocational training and domestic economic competition.

Australia has been for some time a high quality, cost-effective place to do business. It is becoming a better place to do business. We expect more and more Japanese companies to recognise this - as many already have.

Toyota, for example, invested some 30 billion yen in its Melbourne plant last year.

Mitsubishi are expanding their Australian operations on a similar scale.

The Shimadzu Corporation, makers of precision medical and laboratory equipment, chose Australia for its new manufacturing and research operation.

In Japan's financial year 1993, over 30 per cent of Japan's foreign direct investment in mining went to Australia and 70 per cent of its FDI in food.

Of course, it is much easier to reform when others are doing the same and against a backdrop of a strengthened international trading system.

That is why APEC is so important to both Japan and Australia. For each of us, APEC accounts for 70 per cent of our country's trade.

It is worth recalling the weight and seriousness of the historic declaration made under President Soeharto's chairmanship at Bogor last year - and its boldness.

The leaders of all the APEC economies met freely together, and after a preparatory process involving our own special assistants, agreed to achieve free trade in the region by 2010 for industrialised countries and 2020 for developing countries - in other words, an integrated market of two billion people.

Japanese business, with your vertically integrated structure in the region, will be a major beneficiary of this process.

This year, the task of co-ordination and chairmanship falls to Japan. The meeting being hosted in Osaka in November will be critical to the region - and critical to Japan.

The job will be to give form to the APEC declaration, to guide the implementation of the Bogor vision.

I am confident Japan will meet this challenge.

I am particularly confident - because I know him - that Prime Minister Murayama, who played such a good role at Bogor, understands the historic opportunity and will do all he can to grasp it.

I believe it is one of Japan's great post-war multilateral opportunities, the benefits from which can greatly exceed the Uruguay Round outcome.

And, for its part, Japan can be confident that, in its efforts to consolidate APEC's achievements and contribute to the emerging Asia-Pacific community, it will have no firmer supporter than Australia.

I am grateful to all of you who came today for the courtesy you have extended to me.

ENDS