



PRIME MINISTER

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TRANSCRIPT OF THE PRIME MINISTER, THE HON. JOHN HOWARD MP LUNCH HOSTED BY LEADING JAPANESE BUSINESS ORGANISATIONS, TOKYO

E&OE -.....

I am very pleased to be here today addressing major representatives of Japanese business - including some old friends.

The Australia-Japan partnership

A gathering like this underscores for me the special character of the Australia-Japan association. It is a remarkable partnership. And I would like to acknowledge before this audience the role of the private sector in laying the foundations of this partnership.

Both Australia and Japan owe a great debt to the vision and commitment of the Japanese business executives - and their Australian counterparts - who pioneered the resources trade in the decades after World War II.

They laid the foundations of a trading relationship that fueled Japan's economic miracle in the 1960s and 1970s. It is a relationship that is still vitally important to Japan's continued growth and to Australia's prosperity.

It is also a relationship that has had a significance beyond its bilateral character. Because of its importance to Japan as the largest economy in the region, its dimensions and its reliability, this trading relationship is one of the great sinews of economic interdependence in the region as a whole.

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Australia trades more with Japan than we do with any other country. In 1995, a quarter of Australia's merchandise exports and a fifth of our services exports went to Japan.

From Japan's point of view, we are its fourth largest source of imports. We are its largest supplier of energy apart from oil.

Our economic relationship has now become much more diverse. Australia is exporting more services, manufactures and processed foodstuffs to Japan as the Japanese market has opened up. As exports of manufactures and services grow, small businesses are becoming increasingly engaged.

Japan is the third largest foreign investor in Australia with a current stock worth around \$50 billion. It may surprise some of you to hear that nearly 40 per cent of Japanese investment flows to Australia in the past three years have been to the manufacturing sector. In 1995, Australia was the fourth largest destination in the world for Japan's foreign direct investment.

Our relationship of course, Ladies and Gentlemen, goes well beyond the economic. Australia and Japan increasingly have similar strategic interests. Both of us are inextricably tied economically and strategically to Asia. But neither of us takes a narrow or inward-looking view of our region or one that excludes others.

Japan and Australia both see their wider international links as bringing something positive to the region. We both see our relationships with the United States, in particular, as vital to the economic growth and to the stability of our region. Hence, we both see APEC as a key framework for cooperation.

We also share an interest in the closest possible engagement of China in regional and global affairs - as a responsible partner. Hence, we would both like to see China become a member of the World Trade Organisation on reasonable terms.

The scale of human contact between our societies is now very large. Nearly 800,000 Japanese tourists visited in 1995. In the same year, nearly 80,000 Australians came to Japan. Six thousand Japanese students are in Australia, while 1,000 Australians are studying in Japan.

So out of a trading relationship - begun in more difficult times - has grown a strong economic and strategic partnership between our two countries and a genuine friendship between our communities.

The purpose of my visit is to assure you that my Government is strongly committed to advancing Australia's partnership and friendship with Japan. I see a dynamic partnership as serving Australia's and Japan's needs well into the next century. I see it also as making a crucial contribution to the prosperity and the stability of our region.

The new Australian Government

I am conscious Mr Chairman that a change of government after 13 years will inevitably arouse interest. Let me say that my Government does have different views on some issues from our predecessors. And I want to say something about that in a minute.

But first I want to reiterate that I and my Government welcome the progress made in the relationship with Japan under Mr Keating's government and under preceding Australian governments. Successive Australian governments from both sides of politics have made a contribution to building Japan and Australia's relationship.

The foundation stone of the modern economic relationship between Australia and Japan was of course put down by the late Sir John McEwen as Deputy Prime Minister in a Liberal/Country Party Government and the then Japanese Foreign Minister, Mr Kishi, in the formulation of the Australia-Japan Commerce Agreement in 1957.

I would like to say something about the different policy perspectives of the new Government because they are important and I believe will benefit our partnership with Japan - especially as they will make Australia's economy more competitive and capable of sustaining growth in the longer term.

Australia's economy: the challenge

The key policy questions facing both Australia and Japan - along with many other developed economies - are similar. Those questions include how best to generate sustainable growth; how far should government intervene in the economy; and how to lower unemployment.

Australia and Japan also need to ask how we can best promote continued growth in our region. In the case of Japan, it is good news for all of us that the Japanese economy is now beginning to grow more strongly.

My government in March inherited an economy that was growing well with relatively low inflation. It grew by over 4 per cent in 1995-96 and is expected to continue to grow by about 3½ per cent in the current fiscal year.

During the next eighteen months Australia is expected to grow faster than any member of the G7 and to be one of the half-dozen fastest growing countries in the OECD. Inflation is low and should fall to around 2 per cent by the middle of next year.

But my Government also inherited an economy with some pressing structural problems. The most important were the problem of national savings, the lack of flexibility and competitiveness of Australia's labour market, and the constraints on small business.

If these problems are not addressed growth in Australia will not reach its full potential, and we won't be able to reduce unemployment.

And these are the problems therefore that my Government's reform agenda will tackle.

The role of government

Central to my approach is our view that government works best when it supports people and business rather than ties them down in regulations and bureaucracy.

Government still has an important role to play at a strategic level. My Government is certainly not driven by any blind ideological imperative to slash the role of government for its own sake.

But the best contribution government can make is to lay down macro-economic and micro-economic policies which create the conditions for business to thrive.

The budget

With this in mind, our first priority has been to get the budget in order.

We have cut \$3.9 billion from the underlying deficit in this financial year and cut \$7.2 billion by 1997-98, bringing the budget into underlying surplus in 1998-99.

Government outlays will drop nearly 2 per cent - from 27.2 per cent of GDP last year to 25.4 per cent in 1997-98, the lowest level since 1989-90.

Increased national saving will help fund investment, reduce pressure on the current account deficit and interest rates, and enable Australia to sustain higher rates of economic and employment growth.

My Government has also committed itself to a number of measures which will make fiscal and monetary policy more transparent. This will improve the quality of policy formulation and the degree of accountability of the Government's performance.

We will legislate for a Charter of Budget Honesty. Amongst other things the Charter will require the government of the day to publish an official budget update at the beginning of each federal election campaign.

We have also announced an agreement with the Reserve Bank of Australia which reinforces the Bank's independence and the shared commitment of the Government and the Bank to an underlying inflation target of 2 to 3 per cent, on average, over the economic cycle.

Industrial relations

My Government importantly is also committed to reforming Australia's industrial relations system.

Our agenda for industrial relations reform is far-reaching and responsible. It builds on the shift towards enterprise bargaining, which business and unions have supported. It will produce a more efficient and a more flexible labour market.

Under a new system of workplace agreements, employers and employees will be able to enter into agreements on either an individual or collective basis. Wages and conditions will be determined as far as possible in the workplace, within a safety net of minimum conditions and without the involvement of unions unless the employees want them involved.

Irresponsible industrial action will also be minimised by guaranteeing genuine freedom of choice for employees as to whether they belong to a union. Penalties against unlawful industrial action will be bolstered, including for industrial action against companies not directly involved in a dispute.

The Australian community, understands the need for change in labour relations. People understand the costs to the economy of uncompetitive labour practices. Practical reform in industrial relations is absolutely necessary if we are to increase job creation and reduce unemployment. Higher productivity will lift economic growth and create new economic opportunities for all businesses, large and small.

I am confident that our policies will engender more cooperation between employers and employees and a greater sense of shared interest in the success of particular enterprises.

Improving competitiveness and reducing regulations

My Government is also committed to making Australia's transport, communications and other infrastructure more internationally competitive.

A national electricity market will be established in which power retailers can compete. The remaining barriers to free and fair trade between the states of Australia in natural gas will be dismantled. These steps will greatly improve the prospects for ventures in mining and minerals processing in remote and regional Australia.

We will sell one third of Telstra, our national telecommunications carrier. We will privatise federal airports through the sale of long-term leases. And we will encourage greater private participation in rail services.

A task force is currently reviewing business regulations in order to fulfill my Government's commitment to reduce red tape for small business by 50 per cent in our first term in office.

My government recently established an independent review of Australia's financial system to ensure that our regulatory arrangements are as modern and cost-effective as possible.

I believe that these reforms will reduce the costs of doing business in Australia. They will make Australia more competitive and a more attractive partner for Japan and for your companies and your institutions.

Last week, my Government announced a Supermarket to Asia Council. This Council, which I shall chair, includes sectoral ministers, farmers, the transport industry, the food-processing industry, the packaging industry, the distribution and retail industry, our national scientific research body, and a representative of the union movement.

Its aim is to remove unnecessary regulations and generally improve the effectiveness of the food export chain from production on the Australian farm through to distribution into the Asian retail outlet.

Japan has undertaken significant steps to open its markets. This has led to increased market opportunities for countries like Australia in areas such as housing and construction, processed food and information technology.

Australia is conscious that it will only succeed in taking advantage of new openings if we are a fully competitive nation. But there are still areas where we would like to see further liberalisation and deregulation in Japan, including in the agricultural sector.

Finally and importantly, we in Australia know that living cheek-by-jowl with the fastest growing economic region in the world is no automatic guarantee of economic prosperity, success or market access. We must compete effectively in order to take advantage of that geographic proximity.

APEC

I mentioned earlier the importance to both Australia and Japan of doing what they can to support continued growth in the wider region as well as at home.

Last year at the Osaka APEC leaders' meeting, Japan demonstrated her credentials to regional economic leadership. That meeting set out a blueprint for implementing the goal leaders had set the year before in Bogor - free and open trade and investment in the Asia-Pacific by 2010/2020.

My Government is committed to APEC and its free-trade goal. I look forward to discussing the forthcoming leaders meeting with Mr Hashimoto tomorrow and to exploring how I can cooperate with him in consolidating APEC.

The fact is that economic growth in East Asia - beginning with Japan's own spectacular experience in the 1960s - has relied to large extent on finding open markets for its exports. We cannot simply assume that markets will become more open or even stay as open as they are now.

There will always be pressures in Australia, Japan and elsewhere to slow the pace of liberalisation and deregulation. I understand those pressures and the social and political considerations behind them.

APEC offers the opportunity to help balance the short-term costs of domestic structural adjustment by improving access to export markets and by easing the burden on consumers. APEC also helps maximise the benefits of liberalisation. The greater the number of economies that liberalise together, the greater the benefit to each.

But for the process to work it is important that all APEC economies contribute to liberalisation and that all sectors of the economy are involved.

As you know, each APEC country must produce an individual action plan setting out how it intends to achieve the free-trade goal. These plans, I believe, must include substantial trade liberalising and facilitating measures that will bring concrete benefits to our business communities. They should go beyond existing Uruguay Round commitments.

I think business should play more of a role in evaluating the progress of trade liberalisation in APEC. One practical way of doing this would be for the APEC Business Advisory Council to provide an independent report to APEC ministers on the individual action plans.

With substantial progress towards the Bogor target, APEC leaders can credibly urge the World Trade Organisation to agree on goals at its inaugural ministerial meeting in Singapore in December that will generate a renewed sense of purpose in global trade negotiations.

This is important to help prevent the world from fragmenting into in protective regional trading arrangements. Neither Japan nor Australia is part of a trading bloc. We share the very strongest interest in the success of APEC and in the strengthening of the WTO.

APEC members could also look at steps to accelerate liberalisation. At the recent APEC energy ministers' meeting in Sydney I proposed that APEC economies consider achieving free trade in primary energy by, for example, the year 2000. Bringing forward the target for free trade in primary energy would boost regional growth and make it much easier to find the enormous private sector funding needed to build the required infrastructure.

Conclusion

Ladies and gentlemen

I have appreciated very much your hospitality today. On my first visit to Japan as Prime Minister I am indeed privileged to have had the opportunity to speak to you.

I chose to come to Japan in the first seven months of my Prime Ministership quite deliberately.

I did it to demonstrate the ongoing commitment of my government and of the people of Australia to the strong relationship, the deep and mature relationship, the remarkable relationship that does exist between Japan and the Japanese people and Australia and the Australian people.

I wanted to convey to you some of the messages both about continuity and about change.

There is continuity about the commitment of Australia and the Australian people to our relationship with your country and your people. There is also inevitably, and naturally and properly, in the democratic process an agenda for change now that a new government has been elected in Australia.

I want to say to you that I bring the goodwill of the government of Australia, I bring the goodwill of the people of Australia, and I want to conclude by again thanking those people in the business community here in Japan and back home in Australia who from very small beginnings have built a great economic partnership - a partnership built on mutual advantage and co-operation, and a partnership that has brought the two nations and the peoples of those two nations very close as we move together towards the next millenium.