

ACHIEVING WORLD'S BEST: AUSTRALIA'S RESPONSE TO TRADING CHALLENGES IN AN UNCERTAIN WORLD

Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs and Trade, to the Victorian Congress of the Australian Society of Certified Practising Accountants, Melbourne, 8 October 1992.

As Benjamin Franklin once said, in this world nothing is certain except death and taxes. If he had known about international trade policy and the Uruguay Round, I don't think he would have been tempted to alter his answer! There is certainly no guarantee at this stage of a successful outcome to the Uruguay Round of multilateral trade negotiations, which would give a substantial boost to world trade and at the same time make the lives of Australian exporters very much easier. At the same time, a discernible trend has clearly emerged towards regional and sub-regional arrangements, such as the Single European Market, the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Area (AFTA). And we have now seen an enthusiastic embrace by the United States of the idea of bilateral "hub and spoke" agreements - "a strategic network of free trade agreements across the Atlantic and the Pacific and in our own hemisphere". Although argued by the US to be all very much in the cause of ultimate regional and world-wide trade liberalisation, these proposals have been greeted by Australia and others with a very considerable measure of caution. Quite apart from anything else, a further degree of uncertainty has been injected into an already extremely uncertain general trading environment. In the meantime there has been continuing resort to subsidies and other protectionist measures by the world's leading economic powers. As you would be well aware, in the battle between EC subsidies and the United States' Export Enhancement Program Australia is one of the many innocent victims caught in the crossfire. Moreover, protection of domestic markets by both tariff and non-tariff measures of varying degrees of subtlety in the EC and Japan continues to act as a significant obstacle to Australian exports. A more general return to explicit protectionism, managed trade, bilateral retaliatory measures and the formation of warring trade blocs would have even more significant adverse effects on Australia; it's something we are trying to avoid at all costs.

The world in which all these trade policy developments have been occurring is one that has, of course, been turned upside down politically and economically over the last three years. And just about every one of these changes has significant implications for the international, and Australian, business community.

The most publicised example of political change affecting business has been in central and eastern Europe, where the collapse of the centralised communist systems of government

and attempts to move to a market system have resulted in massive dislocation and severe recession. Australian exporters need to work hard to preserve the markets which we have in that region, particularly in commodities. In the longer term, though, there should be significant new opportunities for investment and trade in these countries as they rebuild their economies - we are looking especially hard, in this respect, at the future of the Russian Far East.

It was inevitable that the end of the Cold War and the disappearance of communism would have far-reaching effects, including in the Asia Pacific region of which Australia is part. This region is one of incredible diversity. While containing some of the most dynamic economies in the world, it also contains three of the four remaining communist regimes - China, North Korea and Vietnam - and their planned economies. The largest of these is, of course, China - a market of great importance for Australia, with the potential to become more important still. At the same time, despite some very far-reaching economic reforms and development in the coastal and southern areas, the nature of its command economy - in which regulation, a non-convertible currency, poor investment climate and the need for soft credit are all par for the course - continues to act as a constraint on development of stronger business links.

How well has the Australian economy been reacting to the challenges and opportunities of this new environment? My colleague Senator Button has been talking for years of the need for Australia to develop an "export culture", and I think is at last being rewarded for his efforts. The process is already under way, but must be strengthened further. Developing an Australian export culture is all about having the right mindset, not just on the part of government, but more importantly, among Australian business people and the population in general. One of the obstacles we have encountered in this regard is the need to overcome a misplaced inferiority complex as to Australia's potential which has developed in some quarters (a complex which I have to say has been too often fed by misguided or misleading statements by the Opposition - but that's the only partisan comment with which I shall burden you).

While there is always room for improvement in anyone's performance, the fact is that Australia has little to feel inferior about. We are a \$400 billion economy, the twelfth largest in the world, roughly the same size as the six ASEAN economies combined. The Australian dollar is the sixth most traded currency in the world. And we have reduced inflation to under two per cent - the second lowest rate among the twenty-four developed economies of the OECD.

Australia's trade performance has also been very strong by world standards. Australian export earnings have reached record levels, despite subdued world trading conditions and depressed commodity prices. Our export volumes have risen strongly - in 1991-92 they were 10 per cent above year-earlier levels. We recorded the fastest growth in manufactured export volumes of any OECD country in both 1990 and 1991. Our growth

rate of export volumes was also more than twice that of world trade in 1990, and almost four times that of world trade in 1991.

Moreover, there has been a very pleasing qualitative change in the composition of our exports. Our exports of manufactured products are now as great as the value of our exports of rural products, and we now sell more manufactures overseas than metal ores and minerals. Elaborately Transformed Manufactures (ETMs) have grown fastest of all, almost doubling over the past five years to nearly \$10 billion - and include everything from office machinery, aircraft and car parts to pharmaceuticals. It's not just large, but small and medium sized businesses that have been crucial to this export growth. Examples featured in an excellent article in the current issue of the BRW (2 October) demonstrate the breadth of the growth - from specialist machine tools, hi-fi equipment and small vineyard wines to Blundstone safety boots.

One of the most intriguing and exciting features of all this growth is how much of it has been occurring in our immediate Asian region. Eight of our twelve leading export markets are now in North or South East Asia, as are six of our twelve major import suppliers. Over 60 per cent of our merchandise exports are sold to Asian economies, as compared with under 12 per cent to the NAFTA economies of North America. North and South East Asia accounted for over 60 per cent of our total growth in merchandise exports over the decade from 1981 to 1991. Merchandise exports to South East Asia now exceed those to either North America or the EC - a marked change from the late 1970s when the EC share of our exports was twice as large as that of South East Asia. And the pleasing growth in ETMs to which I alluded previously has been fastest of all in relation to Asia - there has been over 700 per cent growth in sales to North Asia, and over 350 per cent to South East Asia, over the course of the decade.

All these results are the product, I think it should be acknowledged, not only of a more outward looking business community demonstrating its capability, but of the very vigorous process of economic reform undertaken by the Australian Government in recent years, coupled with active foreign and trade policy (not the least of our innovations being amalgamation of these two areas into one Government portfolio, for which I am responsible overall).

One of the major goals of the domestic reforms has been to make Australian businesses more competitive internationally. Opening and internationalising the Australian economy, particularly through tariff reductions, has liberated competitive Australian companies. And the program of microeconomic reform on which we have been embarked, particularly in the transport and communications sectors and in labour relations, has created a significantly lower cost environment in which to operate.

On the external policy front, we have adopted a multi-pronged approach, comprising

complementary activities at global, regional, sub-regional and bilateral levels. We continue to give primacy to global trade policy because a successful outcome to the Uruguay Round remains the first best option for Australia. Unlike the majors, Australia neither has the resources to subsidise on a large scale, nor the bargaining power to rely exclusively on regional and bilateral arrangements. As well as negotiating new trade rules, the Uruguay Round involves the equivalent of thousands of separate bilateral negotiations - encompassing as it does 104 GATT countries across all goods and services.

Regionally, the Government has of course been adopting a strong focus on the Asia Pacific. The most visible manifestation of this was our initiation in 1989 of the Asia Pacific Economic Cooperation (APEC) process, bringing together the major trading nations of the Asia Pacific - now fifteen of them. APEC has already established itself as the leading vehicle for economic cooperation in the Asia Pacific region. At the Bangkok meeting last month it became fully consolidated with the agreement to establish a secretariat in Singapore. That meeting also adopted, very importantly, an ambitious program for regional trade liberalisation which is likely to be the centrepiece of the next APEC Ministerial Meeting next year here in the US.

Short to medium term trade liberalisation projects now under way include harmonisation of customs procedures the administrative aspects of market access, the sharing of information on investment regulations and the provision of up-to-date data on tariff rates. And a longer term perspective is also being generated which may conceivably ultimately lead to the establishment of an Asia Pacific economy as integrated, at least in trade terms, as the European Community now is.

Benefits to business should also flow from APEC's ten sectoral work projects which have been building up over the last two years. They deal with issues such as trade promotion, trade and investment data, investment and technology transfer, energy, telecommunications, human resource development, marine resource conservation, tourism and transportation. Practical results to date include an APEC Electronic Information Network for the on-line exchange of commercial trade and industrial information; a manual comprising data on telecommunications infrastructure in the region which has attracted widespread interest; and the collection of energy supply and demand data for the establishment of a Regional Energy Database.

APEC welcomes private sector input into its activities, and Australia has been actively encouraging that especially through the involvement of the two established regional organisations - PECC and PBEC. It should not be thought that APEC is relevant only to the biggest corporate players. Small and medium sized firms do stand to benefit because of the role which APEC is building up in improving transparency and facilitating communications and information flows within the region quite apart from its larger liberalisation objectives.

Sub-regionally, there is scope for some action, particularly in regard to trade liberalising measures which might initially be easier to implement among a more limited group of countries, expanding gradually to encompass other countries in the wider region. The Closer Economic Relations agreement we have with New Zealand is a good example of a successful sub-regional approach which is fully consistent with the GATT, delivers substantial benefits to both parties and has not seriously been criticised by other economies - not least because the CER process has been accompanied by a significant simultaneous reduction of external trade barriers by the two countries.

Every sub-regional arrangement which purports to be trade liberalising has to be very closely scrutinised to ensure that it will in fact operate so as to create more trade overall rather than simply diverting it to the participants. We have certainly taken the view that arrangements like NAFTA and AFTA need to be very closely scrutinised and monitored from this point of view.

As the main medium of international trade is with individual markets, it is clear that these other levels of activity must be complemented by bilateral activity. The Government has in fact built up a comprehensive bilateral trade policy agenda. We have embarked on a process of developing, together with the State and Territory Governments and industry and union groups, a National Trade Strategy in order to achieve better focus and coordination of Government efforts to improve Australia's trade performance. Within this process, 25 priority markets have been identified, 17 of which are in the Asia Pacific region. The Government welcomes the substantial input which industry has made into the NTS.

In order to assist exporters to penetrate Asian markets, which offer such great potential but which are culturally, politically and economically rather intimidating for new players, the Government has devoted considerable attention to developing a strong research, educational and information base on Asia. For example, through the completion of the commissioned Garnaut Report on Australia's links with North-East Asia (1989) and the follow-up study, North-East Asia in the 1990s: Accelerating Change (1992), a useful conceptual framework has been developed within which government and industry can approach relations with that sub-region. A South East Asia Trade and Investment Study is now under preparation, for release hopefully by the end of this year, and this will perform the same function for another area of crucial - and now much better recognised - importance to Australia.

The Government has taken a number of other initiatives to improve Australia's understanding of, and presence in, Asia. In September last year we established an Asia Pacific Fellowship Program, which provides financial assistance to companies to enable them to place managers or graduate employees in key Asian markets for six to twelve months. We have also greatly strengthened Austrade representation in Asia. During his

recent visit to Japan, the Prime Minister opened the new Austrade office in Nagoya, Japan's fourth largest city. New Austrade offices (playing the role simultaneously as Australian Consulates) have also been opened or are shortly to be opened in Fukuoka, Sendai and Sapporo in Japan, Surabaya in Indonesia, as well as in Hanoi, Phnom Penh and Vientiane. Some of the resources to enable these developments have been found by closing additional posts in Europe, and the symbolism of this has not been lost in Asia, as the Prime Minister found in his recent visit to Japan and Singapore.

Bilateral trade policy will thus continue to be important to Australia, and may well assume even greater importance in the future, particularly if the multilateral system were to be weakened through failure of the Uruguay Round. In such circumstances, as the Prime Minister pointed out during his visit to Japan last month, Australia's core interests would lie in maintaining the most favourable possible environment for our bilateral trade relationships with our largest trading partner, Japan, and the other economies to our north. We would certainly see no overall gain from entering into any trading pact which discriminates against Japan specifically or for that matter any country on the end of other trade agreement "spokes" into the region.

The reason for this is obvious. While it is true that we have some market access problems with Japan, particularly in agriculture, we feel we can work these out through rational negotiation in an improved atmosphere generated by support and cooperation across a whole range of policy areas. The sort of "Japan bashing" we have seen too much of recently is simply not the way to treat, or negotiate benefits from, the country which has been Australia's largest trading partner for over twenty years, and one with which we maintain a trade surplus running at around the \$5 billion per annum. (By contrast, our trade deficit with the US was \$6.5 billion last financial year, while the overall current account deficit we have with the US - by far the largest with any country - is equivalent to 3 per cent of our total GDP.)

Let me conclude by saying that the central role of business is implicit in all our policy considerations. Government can only do so much in creating a positive environment, and it is then up to traders to take advantage of it: with individual businesses doing what they do best, concentrating on areas of comparative advantage.

A two-way information flow between government and business is crucial. The government is not the "enemy" - we are all working for the future of Australia, and so we in government welcome ideas and feedback from business on how our policies might work out in practice. I would also encourage business to take greater advantage of the various forms of assistance available from the government in penetrating Asian markets, for example through the Asia Pacific Fellowship Program to which I referred earlier, and through drawing on Austrade expertise both in its offices in Australia and its missions on the ground overseas.

In the way we have responded to the trading challenges which we have faced since the mid 1980s, Australians have shown themselves capable of making the commitment and changes necessary to survive and prosper in the uncertain international trading environment of the 1990s and beyond. The real challenge now will be to continue working together in a partnership between government and business. We have to believe that we have everything going for us, roll up our sleeves, and actually get out there to do what the theme of your Congress demands: achieve world best.