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MINISTER FOR TRADE

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Subjects: Chinese economy, Australian dollar, US farm subsidies.

- JOURNALIST:** Minister, will you have any chance at these meetings to catch up with your Chinese counterpart?
- CRAIG EMERSON:** Yes, I'm expecting to have a meeting with my counterpart, Commerce Minister Chen Deming.
- JOURNALIST:** There's a lot of concern of course about the strength of China and that continuing because that helps Australia at the moment. What are your thoughts at the moment – will China's strength continue or do you have concerns given global events?
- EMERSON:** I'm an optimist about this. And that is that China is transforming its pattern of economic growth towards consumption and towards those western and central parts of China that haven't fully

benefitted from the first round of economic growth.

All of that's good news for Australia. I've just finished leading a delegation of more than 100 Australian business people engaged in the services sector and the interest in the provincial areas of China was extraordinary. In fact, the business people said that it exceeded their expectations greatly.

So that's one indication of the enthusiasm of the Chinese Government for this new growth model as set out in the 12th Five Year Plan.

JOURNALIST: And do you see the demand for Australian raw resources continuing the way it has?

EMERSON: There's no doubt that China's industrialisation and urbanisation will continue to demand very large quantities of Australian raw materials. But at the same time there will be diversification. So we'll have continued demand and rising demand for basic raw materials such as minerals and energy. And then, to complement that, growing demand for services in particular.

So I think it's pretty clear that the future of the Australia-China commercial relationship is a very bright one indeed.

JOURNALIST: But the downturn elsewhere, in Europe and the United States: that must have an impact on China.

EMERSON: It probably would have had a greater impact a few years ago when China's growth model was overwhelmingly an export-oriented growth model. But in the 12th Five-Year Plan there is this second transformation. That's why we called our trip China 2.0. It's the second phase of development that involves spending on

consumption, including on consumption of services and a spreading of the growth that is achieved right across China. And that plays directly into our emerging strengths in services.

And the diversification on China's part means that it isn't as heavily dependent on demand in Europe and the United States as it might have been five years ago.

JOURNALIST: And we're also here at ASEAN, of course, which is becoming an important region - more important than it used to be because of the connections between countries. What are your thoughts about ASEAN and its plans for an economic community?

EMERSON: Well, we in Australia are champions of trade liberalisation. So anyone who's interested in trade liberalisation, we're interested in them. We've completed the ASEAN-Australia-New Zealand Free Trade Agreement negotiations. That is actually a truly liberalising agreement. If we can go further and wider, we'll do that. We're absolutely committed to regional economic integration, if you like - the creation of a seamless regional economy. That's a long-term aspiration, but there are many steps along the way. And each step towards liberalisation creates more prosperity, more jobs and lifts more people out of poverty along the way. So it's got a lot to recommend it.

JOURNALIST: And the Australian dollar, it's dipping down. That would obviously help Australia with these exports that you're talking about.

EMERSON: Oh, sure. A high dollar has been hurting our manufactured goods and our exports more generally. Notwithstanding that, we continue to record monthly trade surpluses.

But, who knows? It's not for Ministers to determine or prophesise where the dollar might go. What we need to do is build the right fundamentals in Australia and that's what we've been doing with fiscal consolidation, with microeconomic reform, with investing in skills with investing in the infrastructure. Governments can do that. Governments don't set the exchange rate. It's been a long time – actually 1983 – when the Australian Government last set the exchange rate.

JOURNALIST: On the dollar issue, is there a level that you'd like to see that – a level below?

EMERSON: No, I want to reiterate, the last time the Australian Government set the value of the Australian dollar was in 1983, which is a very long time ago.

JOURNALIST: I understand you're a member of the Cairns Group. Do you think the US debt problems are a good opportunity for the US to cut the farm subsidies?

EMERSON: We've argued for the US to cut farm subsidies since I was a little boy. Here's another opportunity. Here's another opportunity. There's no doubt the Administration and the Congress will be looking for areas of spending that they can cut. It would be an opportunity to do this. It would be good for global food security.

The best way to achieve global food security is through free and open trade. Because the market itself will seek out the most productive places for producing food. But if you've got a lot of different interventions, whether they're farm subsidies, export subsidies or even export controls - which were applied by 25 countries in 2008 in response to rising food prices - then you have impediments to the market finding the best places to grow food.

And the importance of finding the best places to grow food is that you have more food at lower prices. And that's what people are actually seeking to achieve. If you ask leaders around the world, 'what is the objective?' More food and lower prices. The best way to do that is to remove farm subsidies, is to remove export controls, is to eliminate export subsidies. These are arguments that Australia has been making since the mid-1980s when I used to work for Bob Hawke and we'd go to the US and make those arguments. We're still making them today.

JOURNALIST: Any indications that something might happen this time?

EMERSON: That's up to the negotiators, involving the Administration and the Republicans. I just hope that it does happen. It's obviously an area where there is some interest being shown. As in all matters, the numbers need to be assembled through Congress to achieve that. If they do, that will actually be good for food production and obviously the US Budget.

JOURNALIST: Returning to China, you were quite positive about China. You don't see Chinese demand for Australian natural resources falling. But is its demand for global natural resources going to keep up – in what areas will China feel pain through this?

EMERSON: In terms of its demand, because of the rapid pace of urbanisation – if you think of the big cities, what do they need? Lots of steel, lots of energy. Well, they are the basic commodities: iron ore, copper, all the base metals.

You really need to travel through western China to believe your eyes as to what's going on. The growth is absolutely phenomenal. We flew in to Chongqing and you open your eyes and say, 'is that Singapore? Or is that Hong Kong? Or maybe

it's both combined'. And here we are in western China. So I think that growth will continue.

Another observation I'd make is that as the world gradually moves to reduce carbon emissions, the transition fuel to moving to a lower carbon economy is widely now regarded as natural gas. And Australia's got stacks of it - enormous reserves of natural gas. Not only in the west, but now in the east, through coal seam gas. So the future is very bright.

JOURNALIST: Thank you very much.

EMERSON: Ok, thanks.

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