GROWTH, TRADE AND JOBS: AUSTRALIA'S ASIAN FUTURE

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the AM Club, Brisbane, Thursday 25 February 1993.

Election campaigns in Australia, even those in summer, always seem to take place in an atmosphere of unrelieved gloom. All parties have long since found that the most satisfying and productive refrain to adopt in describing their opponents' policies is, in the words of Henry Lawson's Hanrahan, "We'll all be rooned." But in all of this the Opposition have always had particular advantages denied the Government of the day: since the media from time immemorial has worked on the principles that bad news always drives out good, that criticism always drowns out praise, and that pessimism is always a better read than optimism, it is invariably easier to get stories run about what is going wrong with the country than what is going right.

I think it's time to redress the balance a little by making clear just how many things Australia has going for it at the moment. I want to take this occasion to spell out - from the particular perspective of my own Foreign Affairs and Trade portfolio - some very compelling grounds, eight of them in fact, that do exist right now for hope, confidence and optimism about our economic future, and our capacity to generate a large number of new jobs for those now out of work, or due to come into the work force in the years ahead.

The first thing we have going for us, often overlooked or downplayed in Australia, is simply our size. We are not a small, weak or no-account economy, either in regional or world terms. With a GDP of over $400 billion, we are the 11th largest economy in the world and the second largest market economy in the Western Pacific - roughly the size of the six ASEAN countries combined. And the Australian dollar is the sixth most traded currency in the world.

The second thing we have going for us is our resource and skill base. We are the world's largest exporter of beef, wool, coal, iron, alumina and lead, and rank in the first two or three in the world for another seven commodities (lamb, sugar, barley, wheat, aluminium, manganese and zinc). But these days an even more relevant resource is our store of highly skilled human capital. And that base has been strengthening all the time, as we have realised as a nation that we had to make the shift from being a merely "lucky" country to a "clever and capable" one. Over the decade since 1982, Year 12 retention rates have increased from less than 40 per cent to more than 70 per cent; the number of students in higher education has increased by nearly 100 per cent; we have funded the equivalent of twenty new universities; and have established a truly national vocational education and training system. We now have the skills base to effectively compete in all the world's markets, and have a strong competitive advantage with that base in the markets of our own region Among the other skill-base assets we bring to bear in our external economic relations are an internationally advanced R&D base, sophisticated telecommunications and financial systems, and a large number of Australian citizens of migrant origin who have maintained personal and business networks in their countries of origin.

The third thing we have going for us is a fundamentally transformed micro-economy. Nobody pretends that the process of structural reform and internationalisation of the Australian economy is yet absolutely complete. But the massive sustained effort that has been made throughout the 1980s in financial deregulation, corporatisation and privatisation of government business enterprises, tariff reform and labour market reform, and in achieving other major efficiency gains in the transport and communications sector, have all made us infinitely more lean, taut and able to compete effectively in the world's markets than was the case a decade ago. Stimulated by the 'best practice" and related programs, nothing short of a quiet revolution has been taking place in work place practices in Australian industry. In the maritime sector alone, much maligned though it has been, the efficiency gains have been staggering: on the waterfront, the workforce has been cut by 57 per cent, container handling rates have increased by another 57 per cent, and average ship turnaround times have reduced by 45 per cent; while in shipping, average crew reductions of 25 per cent have been achieved (with more to come), there has been a 30 per cent reduction in tug boat labour costs, and industrial disputation - here as elsewhere - has fallen to negligible levels.

Fourthly, our macro-economic fundamentals are in very sound shape. Unemployment, of course, remains unacceptably high - even with the fall back to 10.9 per cent in the latest figures - but the objective of squeezing inflation during 1992 right out of the system has been well and truly realised. Inflation during 1992 [year to September] was only 0.3 per cent, the lowest annual increase for 30 years, well below that of our major trading partners and the lowest rate in all the OECD countries. It needs constantly to be remembered that coming out of the last recession, in 1982-83, unemployment then was also over 10 per cent, but it was accompanied by an inflation rate that reached 11.2 per cent! Taking into account just the fall in the value of the dollar and our relative inflation rate, the Australian economy is now 26 per cent more competitive internationally than it was ten years ago.

Real interest rates are about the average for the OECD countries, and the balance of payments continues to gradually improve: while interest repayments on accumulating debt continued to push the monthly figures into deficit, our goods and services balance has improved markedly in recent years and last year was in surplus for the first time since 1979. Overall the current account deficit has improved from 6 per cent of GDP in 1989-90 to 4 per cent in 1992-93. As to the foreign debt, it needs to be constantly remembered that the private sector is responsible for the vast majority of our net debt - in fact, the Commonwealth Government is a net lender to the rest of the world (with our holding of foreign assets exceeding our foreign borrowings). Moreover, Australia's capacity to service the debt from exports continues to improve, with the net debt servicing ratio having fallen from 20 per cent in 1990-91 to 15.4 per cent now - well below the accepted "danger zone" of 25 per cent.

The most important news about the macro-economy is the way in which growth is visibly recovering, albeit at slower levels than we would ideally like. Over the last 12 months we have had among the fastest growth rates in the OECD, and The Economist magazine forecasters earlier this month identified Australia as likely to achieve - at around 3 per cent - the fastest growth performance in the OECD through 1993. And the January edition of Euromoney magazine put our prospects this way:

> An important break with tradition is in prospect. The outlook for world growth in 1993 is unexciting but for Australia a new pattern is emerging... Australia presents a positive picture for the year ahead - but it is more than just a one year story.

The fifth thing Australia has going for it these days, and it is a very big thing indeed, is location. Nothing short of an economic revolution is going on alongside us in the Western Pacific rim. The closest part of the region to us, South East Asia, is growing at an annual rate of 7 per cent or more, and this is expected to continue for the rest of the decade and beyond. Extraordinary changes are already occurring in consumption patterns: 6 million people already have what could be described in Western terms as a middle-class lifestyle, and this number will grow to more than 40 million people within the decade. There is an extreme shortage within the region of things that we can produce and sell, not just the raw materials which we have traditionally sold to Japan and other North East Asian economies to fuel their manufacturing industries, but sophisticated goods and services.

We were familiar with the "old complementarity" of the relationship between Australia and North East Asian economies, based on our comparative advantage in "Lucky Country" commodities. The "new complementarity" which has emerged between Australia and South East Asia is based essentially on Australia's comparative advantage in human capital. As a higher income, more developed economy, Australian manufactured exports and services are based on relatively high levels of education and training, and these are just the types of goods and services for which demand is growing most strongly in this region as incomes rise. And not the least of our advantages in tackling these markets is closeness: for the first time in our national existence, the tyranny of distance has become the advantage of proximity.

The sixth thing we have going for us is a new image and reputation in the region. If a potential trading advantage is to be converted into an actual one there have to be not only energetic and competitive sellers but willing buyers: in winning both government and private sector contracts, much can depend at the margin on whether the source country is seen generally as a sophisticated, reliable, high-tech kind of place, or rather just as a quarry/farm/beach. There is certainly no grounds for complacency, but it is a reasonable judgment to make that perceptions of us are beginning to change in the regional media, and at the business and general community level.

Certainly at the level of key policy-makers and decision-makers, Australia's standing in the region is now higher than it has ever been as a result of our demonstrated strong commitment to forging a partnership with the region, and the efforts we have made to give that content in both political and economic terms. In security related diplomacy, we have been intensely active both in forging a peace plan for Cambodia and in encouraging a wholly new approach to overall regional security dialogue. In economic diplomacy, we have been the prime movers in establishing the Asia Pacific Economic Cooperation (APEC) process, which is now acknowledged - even by the Australian Opposition - to be the most important regional vehicle for advancing economic cooperation and more specific trade liberalisation and trade facilitation objectives; and we have won respect for the leadership role we have played throughout the Uruguay Round GATT negotiations as Chairman of the "third force" Cairns Group . Our regional bilateral relationships are all stronger than they have been for a long time, with Indonesia, Japan, Korea, Taiwan and China standing out in this respect. The priority given to the Asia Pacific region by Prime Minister Keating in his initial overseas visits has been widely noticed, as has the significant reallocation of both Austrade and Department of Foreign Affairs and Trade resources to the region.

The seventh thing that Australia has going for it at the moment is a genuine, demonstrable, change in the country's export culture - and a consequent change under way in our export performance. The point seems to have at last been understood that the key to long-term growth in output, employment and living standards is strong and sustained growth in exports, and that those exports are capable of being generated by businesses of all sizes, and just not the large, traditional players. Exports now make up almost 23 per cent of GDP, with total exports having doubled since 1983.

The direction of those new exports has been unequivocally towards Asia. Although Australian business was not as fast on its feet as it could have been in picking and riding the growth boom in south East Asia which occurred from the mid 1980s on, we have been making up ground very rapidly. We now sell in fact more than two and a half times the amount of goods to Asia as we do to Europe and the US combined. In the last year South East Asia has displaced the European Community as our second largest regional purchaser of exports, and on present trends South Korea will have displaced the United States as our second largest country market by the end of the century.

The change in the composition of our exports has been as dramatic as that in their overall size and direction. For the first time in our history, manufactured exports now rival rural exports in size. Since 1986 manufactured exports have grown at an average of 15 per cent real per year, one of the fastest rates in the OECD, and indeed faster than the Asian tigers (albeit from a lower base). In 1991-92, exports of elaborately transformed manufactures became Australia's top export earner, bringing in $10.4 billion, ahead of metals, ores and minerals ($7.9 billion), tourism ($7.7 billion) and coal ($6.9 billion). What is particularly fascinating about the surge in these high-value added manufactured exports, is how many of them are coming from small to medium size companies. The key to Australia's future success in manufacturing exports is going to be the core of 700 such companies recently identified in the McKinsey report for the Australian Manufacturing Council: these have been growing at 13 per cent per annum, generating over $8 billion in export earnings now and expecting to nearly double that within four years.

To understand what is starting to happen on the ground it is helpful to look at the experience of individual businesses. And there have certainly been a number of export success stories in in recent times in Queensland, e.g. MINCOM- exporting mining industry software throughout South East Asia and to the US; QUF - exporting extended shelf life dairy products to Singapore and Hong Kong; Walkers Ltd - exporting sugar milling equipment to Thailand; Agen Ltd - capturing 45 per cent of the Japanese market with its medical diagnostic equipment; Heat and Control - selling automated fast food processing machinery throughout Asia; Palmer Tube Mills - the world's largest producer of welded steel tubing, exporting to Singapore, Taiwan and Canada; Rheem Australia - selling concrete transit mixers to Malaysia, Brunei, Singapore, Taiwan and Hong Kong; and the Great Aussie Pie Company - exporting processed food to Japan, Korea and Hong Kong.

The eighth thing that Australia has going for it at the moment - and it is only now that I'm going to have to make some overtly partisan comment! - is a Government able and willing right now to take the immediate steps necessary to kick-start the next major phase of economic activity into life. There is no doubt that there is a very large volume of investment now poised and ready to be made by companies as soon as they judge that the time is right to do so. An extraordinary $130 billion worth of major investment projects, each more than $50 million, have been registered with the Government in this respect, in the form of applications for the Development Allowance announced in our One Nation statement last year: these are not mere gleams in company managers' eyes but firm and specific projects ready for immediate launch.

What will achieve that kick-start is the Government's package, announced on 9 February, of new investment allowances and a new low company tax rate (33 per cent as compared with the Coalition's 42 per cent) announced on 9 February, and following on from the income tax cuts and specifically targeted public expenditure programs spelt out in last year's One Nation package. I have to say that it is very difficult to see how the Coalition's GST package, by comparison, can ever generate a single job. GST itself, as a tax on expenditure, is never going to have that effect. Whether the abolition of some other taxes will have a stimulatory effect depends entirely on the extent to which the benefits are passed on by suppliers of goods and services, and no enforcement mechanism has been seriously proposed in this respect.

Moreover, and very importantly, there will be a further contractionary effect from $10 billion worth of savage expenditure cuts already announced by the Coalition, together with whatever further cuts are necessary to cope with the huge shortfall that will inevitably arise when the sale of Telecom and other privatisation measures fail to reach the wildly inflated target of $25 billion that has been set - a failure that this week's Salomon Brothers report makes clear will occur. Alternatively, if the Coalition proves simply incapable of implementing these orders of expenditure cutting, we will see the mother of all Budget deficit blowouts - with all the consequences we have been trying to avoid through the 1980s as we brought the structural outlays budget back under control. The only other alternative would be for the Coalition promises of tax cuts, and various measures to compensate for the GST impact, to be abandoned. Unless, of course, the Coalition were to fill its $8 billion or so annual shortfall by raising the GST to 22-1/2 per cent!

Any way you look at it, the truth of the matter is, in line with the business reaction report in the Australian Financial Review last Monday, that there is just no basis for assuming that anything in the Opposition policy will serve to kick start the Australian economy into life. In fact, the contrary is most likely.

The point I am making in all of this is that there are innumerable grounds for optimism about the future of the Australian economy - and considerably more so if Labor continues in office. There has been a deal of pain in the last few years as the Australian economy has been stripped back and made tough and competitive, but there is every reason now to believe that the time for gain has arrived. Huge market opportunities, directly calling upon skills we have in abundance, are lying in wait next door to us, in the most dynamically fast growing economic region in the world. And the policy settings have been put in place, or announced, to fully realise those gains.

It has to be acknowledged that it is not unknown in Australian history for a Government which has been in office some years to run out of ideas and energy, consuming the last of its dwindling resources of stamina in debilitating internal quarrels. But none of this is true of the present Labor Government. It is true that a significant proportion of the 1.7 million new jobs created through the 1980s have been lost as a result of the impact of recession. It may also be the case that while that recession was overwhelmingly a product of world events beyond any Australian Government's control, with the benefit of hindsight we may have judged the handling of some monetary and fiscal levers a little differently.

But what cannot be denied is that this is a Government which has worked a fundamental transformation of the Australian economy over the last decade, on a scale never previously attempted, let alone executed, by any alternative government. And this is a Government which has given Australia a credibility and respect in the Asia Pacific region and the wider world which has positioned the country admirably to take advantage of every opportunity that now opens up for economic advancement. And it is a Government which, while massively experienced (and much less likely now as a result to make the kinds of mistake that every new Minister makes in his first few years in the role), is still remarkably young, by any previous standard, and one with its energy and creativity intact.

Hanrahan can rest easy if Labor is returned. But there are very good grounds for believing that the Australian economy, and a good deal else as well, will be "rooned" if the electorate were to commit itself to an untried, untested, ideologically-driven alternative, not committed to consensus in the work place or compassion anywhere else, which is not as experienced, or as young, or as demonstrably creative and energetic as we remain.

I concede that I am hardly an objective observer, but I am happy to let history be the judge, and think you should be too.