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PRIME MINISTER

SPEECH BY THE PRIME MINISTER

CHAMBER OF MANUFACTURING, NEW SOUTH WALES

SYDNEY - 25 SEPTEMBER 1984

Ladies and Gentlemen,

I very much appreciate this opportunity to address you tonight.

The turnaround in Australian manufacturing over the past eighteen months represents a substantial achievement.

It is not simply the sharp reversal of what had been a dramatic decline in Australian manufacturing that is significant - it is also the vigour of its recovery which is now providing the Australian economy with a source of real strength.

The Industry Councils' Secretariat is currently undertaking an assessment of the performance of the Australian manufacturing industry.

The conclusions drawn by the Secretariat demonstrate for all Australians, and particularly those engaged in the manufacturing sector, the severity of the problem confronting the Labor administration in this area when it assumed office in March 1983.

They indicate that in terms of low output growth, employment decline, low export growth, rising import penetration and low growth in capital stock, the manufacturing sector in the period 1971/72 to 1981/82 was performing the worst of the five major sectors of the Australian economy.

In the year to March 1983 the situation was particularly disastrous - output fell by over 12 per cent and, over the year to May, more than 100,000 jobs were lost in the sector.

This record of decline, both in growth and in absolute terms, had to be halted and reversed. Since March 1983 it has been.

The Labor Government accepted this task as one of its highest priorities.

Indeed my Government when it assumed office, and ever since has regarded the restoration of a highly productive, strongly competitive manufacturing sector as crucial, not only to the immediate purpose of economic recovery, but also to the even more important task of securing conditions that would guarantee the maintenance of long-term economic growth in Australia.

Hence the emphasis we have given to the development of a sound industry policy as part of the Government's overall economic strategy.

Only if we have a more internationally competitive manufacturing industry can Australia achieve the growth in output, income and employment it needs. A defensive, inward-looking, and stagnant manufacturing sector could hold back the growth of the whole Australian economy.

The fact is that the manufacturing sector has a singular importance for the people and economic life of Australia.

It can either exert strong depressive effects on other sectors of the economy or it can play a central role in the process of economic growth.

Improved performance of the manufacturing sector is essential.

This will only be achieved if we have a manufacturing sector which is:

- more internationally competitive and export oriented than at present;
- better able to adapt to changing conditions;
- better equipped to take advantage of opportunities presented by technological developments.

Government's industry policies - and economic policies more generally - are directed to providing the framework within which attainment of these conditions might be possible.

The remarkable turnaround in Australia's economic performance achieved over the past eighteen months has certainly provided an environment of unparalleled opportunity for the manufacturing sector.

Through the last year we have experienced the strongest growth in economic output since national accounts data were first collected in their present form a quarter of a century ago.

Through the last year more new jobs have been created in Australia than in any other year in our history.

Through the last year we have seen inflation and inflationary expectations fall decisively, from about twice the average of the industrial countries, to levels that are more or less in line with comparable countries.

Faster growth and modest wage increases within the Accord have dramatically reduced real unit labour costs. The share of national income accruing to profits is now higher than at any time for the past 10 years. The continued successful operation of the Accord will enable still further improvement in real unit labour costs because there will be no increases in award wages over the twelve months to next April. Real wages costs per unit

of output are now much the same as in the late 1960's to early 1970's.

This rapid turnaround in economic activity has been accompanied by the lowest incidence of industrial disputation, as measured by working days lost, in the past 16 years.

Interest rates have fallen appreciably, contributing directly to lower business costs and improved sales and investment prospects.

And the manufacturing sector, albeit unevenly and haltingly, has reflected in its own performance something of this decisive shift in Australia's economic fortunes.

In the year to May 1984 there were hardly any job losses in the sector. Employment in the sector has levelled out and I would hope the forthcoming employment figures for the year to August 1984 will show some growth.

The latest June quarter index of total manufacturing gross product (seasonally adjusted) also showed a growth in real terms of nearly seven per cent over the previous year.

Despite the unexpected fall of 0.7 per cent in output in the June quarter itself - due in large measure to stock rundowns, technical difficulties in one sectoral group, and quite possibly to statistical aberrations - I should expect the strong growth which has been apparent in the sector since the March quarter 1983 to be sustained in the current year.

My confidence is based not only on an anticipation of continued strong growth in the economy - though obviously that will be important.

There is also the clear evidence of strengthening private consumption. July retail sales figures showed an increase of 3% in seasonally adjusted terms and retail sales in the year to July 1984 rose by 8%. This pick-up in demand is obviously very encouraging to manufacturers.

The Government's economic policies, including some specific industry policies, also provide a most effective underpinning for a sustained recovery of production in the manufacturing sector.

My confidence is shared by Australian manufacturers.

The September quarterly survey by the Confederation of Australian Industry and the Westpac Banking Corporation of industrial trends showed its most optimistic capital spending results for three years. Forty per cent of manufacturers expected to increase spending on plant and machinery over the next 12 months, compared with 20 per cent who forecast lower spending. This is the best result since June 1981, and compares with 36 per cent predicting a rise and 22 per cent a fall in the last June quarter.

The approach the Government is adopting to manufacturing industry policy is clear and deliberate. It is an approach which at once aims at a definition of goals, the consideration of the timing of the process of adjustment, the selection of appropriate policy instruments, the examination of necessary institutional and administrative arrangements, and attention to the equitable distribution of the social costs of structural adjustment.

The Steel Industry Plan introduced last year is a highly successful example of this approach at work. Through it, all groups involved dramatically enhanced their own positions by agreeing on measures aimed at rapidly improving the competitiveness of the industry. The careful choice of appropriate policy instruments in the Steel Industry Plan has benefitted all Australians by providing steel at lower prices and in a more competitive environment than was the case under the regime of import quotas which the Plan replaced.

The Motor Vehicle Industry Plan is another example - it aims to encourage a more competitive industry, providing more secure employment and investment opportunities for those directly engaged in motor vehicle production, and better vehicles at lower prices for consumers than would have been available under the arrangements we had inherited.

The success of arrangements such as these hinges not on unilateral action by Government, but on a co-operative approach by all concerned - governments, employers and unions - to the problems of the industry in question.

To foster this approach throughout the manufacturing sector we have established an extensive industry consultative mechanism spearheaded by a restructured and revitalised Australian Manufacturing Council.

Already the Council has some valuable runs on the board. Its recent statement on manufacturing industry policy - representing as it did the agreed positions of all bodies and individuals on the Manufacturing Council - was a major achievement. It not only served to underline that a vigorous and competitive manufacturing sector was vital to the Australian economy, but that a positive industry policy was an integral part of achieving stronger economic growth and increased employment.

More specifically the Council suggested that:

"The main impetus to growth must be achieved by the development of economies of scale, achieving larger volumes and more diversified trade, increased factor productivity and being more competitive in the domestic and export markets."

The Council went on to propose that: "Policies to this effect should focus on:

- . maintaining and where possible expanding our existing position in world manufacturing, agricultural, mineral and resource markets where we do have a competitive advantage
- . developing export and import competing opportunities for the manufacturing and service sectors and matching the removal of protection with the development of those opportunities
- . planned reduction of support for manufacturing industries not consistent with determined objectives to be trimmed so that job losses can be made at acceptable social costs

- the need to ensure that the costs of capital, availability of finance and taxation provisions are conducive to developing manufacturing industry in Australia."

This approach proposed by the Australian Manufacturing Council constitutes a coherent, properly balanced - indeed totally sensible - prescription for growth in the manufacturing sector; it also, in the implementation of all its elements, represents an appropriate strategy for national economic growth.

Importantly the Council's approach highlights the futility of narrowly-based, and often ill-conceived, solutions to the problems of Australian industry.

Sterile old arguments, within which the respective merits of free trade and protection were seen as the only issues in industry policy, are buried - hopefully forever.

In their stead, and in line with what both John Button and I have argued for the past year or so, the Council declares that Australian manufacturing industry must expand sales both in international and domestic markets, and that the key to success in both areas is enhanced competitiveness.

The achievement within the Council of a consensus on this approach is a valuable advance in the development of community understanding of the issues involved. It constitutes needed recognition of common ground and an equally important movement away from narrow sectional interest. What is required now is action to give effect to the thrust of the strategy proposed - to identify and nurture the processes by which the manufacturing sector might achieve enhanced competitiveness.

In this regard, the role of the industry specific Councils established under the umbrella of the Australian Manufacturing Council is vital.

Importantly these Councils have been constituted in such a way as to draw upon the views of representatives across the full spectrum of industry. The benefit their understanding and experience brings is an essential prerequisite to the development and implementation of appropriate industry policies.

A comprehensive work program for the Councils has already been established.

The program concentrates initially on the manufacturing sector's current position and aims to identify the strengths and weaknesses and prospects and opportunities of the sector. From this work, and guided by the long-term strategy approach outlined by the Manufacturing Council, specific action-oriented proposals for industry restructuring and development will be formulated.

This work is being complemented at the Government level by a sub-committee of Cabinet and a high level officials' Task Force formed to consider the issues involved in industry adjustment.

I consider it most important that the Government bring a properly considered and carefully integrated approach to the policy issues involved in this crucial area. It is not simply that Government action should be supportive of the perceived needs of industry. Certainly, at a minimum, Government policies across the full range of areas of interest to industry should be consistent in their effects on industry; but Government action should also serve as a catalyst for necessary change.

Government would be failing in its responsibility were it not to provide a policy framework appropriate to the long-term developmental needs of competitive Australian industry structures. Government should also see that the costs of change are not borne alone by those at the face of change. As I have said many times before, if change is to be justified in terms of the benefit to the community as a whole, then the community must share the burden.

One direction in which the Government will look more deliberately for change is in the accumulated pattern of excessive and often irrelevant and obstructive body of laws and regulations. The removal of unnecessary regulation will contribute significantly to improved economic growth performance.

It is with this aim that we are establishing a tripartite working group - comprising representatives of government, business and unions - to examine critically the whole range of business regulation. As I said the other day to the Business Council:

"We will maintain regulation which, upon careful analysis, clearly promotes economic efficiency, or which is clearly an effective means of achieving more equitable income distribution.

We will abandon regulation which fails these tests."

Whatever action we take in Government, however, can be no substitute for the initiative and enterprise of industry itself. Only through your efforts are we likely ultimately to succeed in achieving

- a sector which will have the capacity to provide Australians with increased standards of living
- a manufacturing sector which will provide increasing number of jobs and jobs which are secure and have long term prospects, and
- a manufacturing sector which will provide increasing numbers of jobs and jobs which are secure and have long-term prospects, and
- a manufacturing industry producing goods which are up to date, technologically advanced, and produced efficiently at competitive prices.

In many parts of manufacturing, production for the domestic market alone will not allow industry to achieve these goals. Our success will depend crucially on improving the export performance of the manufacturing sector.

In this regard, allow me to say that recent comments by your Chamber's Director, John Martin, were music to my ears.

While discussing the subject of research and technology, John emphasised the need for industry to become more export oriented. He noted that there is a significant market out there for our products and that industry should reach out for it.

Expansion in the trade of manufactured goods has been the driving force behind world trade growth over the past two decades. But because of the essentially import competing, substitution nature of manufacturing in Australia, we have had little share in that growth. This single fact, more than any other accounted for Australia's share of world exports falling from 1.7% in 1970 to 1.2% in 1980.

Many of Australia's basic commodities face uncertain price prospects in the medium and longer term and are experiencing intensified levels of protection in foreign markets, increasing supplies from developing countries and increased substitution.

Australia needs the impetus effect of income and employment growth that manufactured exports can provide.

Looking at Australian manufacturing industry, I have no reason to doubt the competitive capacity of Australian manufacturing industry. There are absolutely no grounds for pessimism about our ability to export the products of our manufacturing and services sectors.

We have achieved a stable macro-economic environment in which lower real unit labour costs, falling interests rates and a realistic exchange rate are more conducive than in recent memory to the heightened competitiveness of Australian industry.

We have an established pool of enterprise and initiative.

Internationally, economic recovery has taken hold and with it flows the prospect of expanding market opportunities.

The opportunities for Australia's manufactured exports are further enhanced by our location within the world's most dynamic region.

We need now to put all these circumstances together into a highly successful export drive.

There is, however, no room for complacency in our approach.

Australia will not be an automatic beneficiary of the dynamism of the Western Pacific simply by virtue of the good fortune of being located there.

The recent report of the high level trade mission to Japan drives the point home. While the report identifies a number of areas where particular export opportunities exist, it says that successes in marketing Australian manufactures in Japan have been rare and nearly all exports of manufactures to Japan have been the result of Japanese trading companies seeking out Australian products and, then marketing them in Japan.

Australian industry must be more active and adventurous in seeking out overseas markets. There are risks in such action - but there are also significant rewards. As a nation, and as exporters, we must be prepared to take these risks.

A more outward-oriented approach to Australia's manufacturing activities has important implications for both industry and Government:

- for industry it means seeking out and capturing the opportunities of the international market, matching the quality of overseas competitors and resisting the temptation to shield behind the protective walls of a limited domestic market. The imperatives of successful international competition stimulate vigour and flexibility not only in economies but also in the enterprises on which those economies depend.

- for Government, an outward-orientation means recognising the mutually supporting role of production for the domestic and export markets. It means establishing systems of incentives in which prices reflect both domestic and international resource scarcities. Above all, it means creating a climate which is conducive to enterprise and to flexible responses to changing market conditions. It is in just such a climate that specific, positive measures of Government support for industrial development are likely to bear fruit.

Recent changes in the structure and approach of the Australian Department of Trade have been designed to further enhance the export prospects of the manufacturing sector.

The market development activities of that Department are now giving a particular priority to manufactures and services.

A "Global Marketing Plan" has been established to identify products and firms which are competitive by world standards. It will also identify overseas markets where Australia is likely to be able to secure an increase in exports of manufactures.

In practical terms, a number of industries have been identified as having scope for improved export performance. The diversity of these industries testifies to the broad base of the Australian manufacturing sector and to the range of opportunities presented.

Specific country "Action Plans" are also being implemented. By taking account of the individual characteristics and trading conditions of the individual countries these plans will maximise our chances of breaking into new markets.

Already very considerable progress has been registered under both the China and Japan "Action Plans". Very significant impetus has also been achieved by myself, Lionel Bowen and many other Ministers involving ourselves directly in the national effort to promote Australia's exports. The China iron and steel initiative is one clear example of the real gains already registered. The visit to Australia later this year of a high level Japanese import expansion mission will be another example of opportunities created - in this case it will be for Australian manufacturers to persuade the visitors of the competitive quality of their product. I could not over-emphasise the need for Australian manufacturers to prepare thoroughly for this most important mission's visit.

The effectiveness of the Australian Trade Commissioner service is also being improved through a stronger marketing orientation and by recruitment of suitably qualified private sector personnel on short term appointments.

As well, a National Export Marketing panel has been formed to focus on manufactures and services. This panel will advise on the most effective ways in which the Government can assist Australian exporters and ensure that our export finance and insurance activities, export development grants, and trade promotion activities are each being effectively employed.

My own regional trade initiative, first announced in Bangkok in November last year, should also help secure improved access to international markets for Australian suppliers. In this regard, I am delighted that the next meeting of senior regional trade officials will be held in Sydney from 3-5 November. Out of that meeting I expect countries of the region to define more precisely their interests in contemporary multilateral trade issues. By so doing we should be able to secure more adequate international attention to this region's trade needs and priorities.

Finally I suggest to you that far greater effort needs to be put into fostering closer links between industry and research organisations by Australian manufacturers and researchers, and especially the CSIRO, so as to facilitate commercial development of research findings.

For too long research in Australia has been too much divorced from development. If measured against the yardstick of relevance, there is clearly a need for our scientists to lift their game.

As a nation we have been deprived of the full benefit of our internationally acclaimed research effort. The fault lies on both sides - with researchers disinterested in the application of their product, and with industrialists not sufficiently aware of the benefits to be derived from a vigorous research effort.

It is for this reason that I have recently discussed with both the Australian Vice-Chancellors and with the Business Council of Australia some of the ways in which this gulf might be bridged. For its part the Government will actively support this process.

There is a need for Australian scientists and industry leaders together to focus more deliberately on the quality and relevance of Australian education systems.

The gap between Australian research and development has its origins in traditions that have never recognised nor acknowledged the relevance of each to the other. This problem will only be overcome if researchers reach out more deliberately to understand and provide for the needs of industry and if industry itself puts much greater effort into defining its requirements more precisely and embarks on the even more difficult task of persuading educationalists and researchers to redirect their interests.

While change in areas such as this is inevitably slow, there should be no doubting the Government's determination to encourage progress.

The Kirby Committee is currently reviewing the whole range of Government training programs. And we have established the Karmel Committee to review the quality of Australian education, at the primary and secondary level, with a special concern to improve the relevance of the education process to employment and future economic opportunities. Similar work is being undertaken by the Commonwealth Tertiary Education Commission, under its new Chairman, Hugh Hudson.

These inquiries would all benefit greatly from carefully researched, well-co-ordinated industry inputs.

Ladies and Gentlemen,

In the final analysis, the Australian manufacturing industry's best prospects lie in improving its competitiveness and in seeking out new markets, especially internationally. Without this approach its contribution to the Australian economy will be well below its potential.

The opportunities presented by international economic recovery, together with the underlying inventiveness and diversity of Australian manufacturing activity, should dispel any pessimism.

What is needed above all else, is improved competitiveness. Any measure of import replacement and export expansion achieved on this basis will be to the benefit and advantage of all Australians. The task confronting us as a nation is to remove all impediments to competitiveness.

A deliberate and concerted effort on the part of all concerned is required. Government certainly has a role to play - my Government recognises this and has already moved to shoulder its responsibilities.

But, ladies and gentlemen, the real engine for growth is not Government. It is industry itself which must develop successful strategies to export and grow. The people of Australia are looking to you to do so. It is because I know you have the capacity and the commitment to meet that challenge that I have had the greatest pleasure in being with you tonight.
