

MASTER

**PRIME MINISTER**

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
LAUNCH OF THE AUSTRALIAN MANUFACTURING COUNCIL'S REPORT
'EMERGING EXPORTERS, HYATT HOTEL, CANBERRA, 15 JUNE 1993**

E&OE PROOF COPY

... my colleague Martin Ferguson, President of the ACTU and ladies and gentlemen.

This is a very impressive and I think seminal work. It is the first accurate snapshot of what is happening within the smaller innovative exporting firms which has been undertaken by the Australian Manufacturing Council, under the leadership of John Prescott and with the help of McKinsey's. A process of rigorous interview and evaluation of the various firms has been undertaken so as to give a clear indication of the performance of these businesses and their trends and the way they are operating and their motivations. Much of this is in the report.

The important thing about it is I think for all of us who have believed in an international culture for Australia, for those who have thought competitiveness was the key to international success, what the report shows is that the twin, if you like, incentives of the carrot and the stick - the carrot being access to export market development grant schemes, export access, NIES, Austrade, better research and development, better tax concession - has changed attitudes, as has the stick of lower tariffs and the incentive to be competitiveness and then once having become competitive, turn that competitiveness to exports.

It is again, a microcosm of what could be a very much larger picture of Australian manufacturing, and supports the notion of an international competitive economy with an open goods market where companies sort themselves into competitive lots and where through, then, some inspiration in leadership, the companies then go on and do things.

We are talking here of quite phenomenal growth but off a relatively small base - 15 per cent growth in a year as John indicated, \$8 billion of earnings to date growing even at the same addition of the number of firms as the 700; that is on

very conservative assumptions, growing to around \$15.5 billion in five years time. The very thing the country needs in the, that is added value, innovation and that focusing on the export markets, particularly at the Asia-Pacific.

One of the very clear things in the report is that while these companies have been successful, their character, their products and their history is often no different than thousands of other companies that do not export at all and the difference is only in attitudes, the difference is only in leadership. It is not in the products, it is not in the research component, it is not in the maturity of the business, it is only in leadership and in attitudes which begs the question about how we should try and motivate the other 90 per cent of similar existing manufacturing firms to engage themselves in exports as well.

The survey shows that our firms can succeed and that three quarters of the firms have only began exporting recently after an average of 27 years of domestic production. Some are, as John Prescott said, some have been, to coin an expression, born global; that is they have done nothing other than export, they didn't have a domestic manufacturing history. But the average is for three quarters is 27 years, they had 27 years of domestic production and so therefore it is pretty obvious that many other firms could be exporting but are not, because they have not had the leadership or the inspiration.

It is surveys like this I think that do indicate, I mean a survey of this quality, that does indicate to many firms that they can do the same thing and that the focus on things such as best practice does lift the whole standard of Australian manufacturing. It changes the attitudes of Australians and Australian businesses towards export and towards Asia and it does give us a real opportunity to see the place mature as a modern manufacturing country, offsetting that overwhelming dependence on commodities which we had through most of the post-War years.

John made some interesting points about the size of these firms. Many were thought by the surveying firm McKinsey's to be too small to be successful as manufacturing exporters, but they are. And one of the reasons that they are is of course, the shifts in communication technology. The fax machine has made a very large difference to the way a small business can present itself abroad. And of course the Government's changes there in telecommunications can only further underpin the competitiveness of smaller companies and interfacing with the world through these innovative technologies.

One of the other key points that emerges of the study is the importance in establishing distribution networks in Asia. The likelihood of Asian firms militantly marketing Australian goods is a very slim one and, while it happens in places and certainly happens with the bulk traded commodities in some respects, the establishment of distribution businesses in Asia is one of the keys to our future and we have to do what Japan did 20 years ago - establish distribution businesses even with clusters of firms operating in various areas, in

some places foreign access zones which are now available in Japan and in China, where these countries actually want to see the development of non-Indigenous distribution arrangements.

These are all things which the report points up, and it most particularly points up the fact that the culture of internationalisation, the culture of lower tariffs and competitiveness is the right culture of Australia in terms of developing our manufacturing capacity, that added value and innovation will come from a competitive country which has got all the other things running for it - a proper research and development focus, proper concessions for that in the tax system, a competitive exchange rate, low inflation, all the big macro things which are part and parcel of competitiveness, and then what blossoms are the companies under the leadership of people who can see beyond the domestic market.

This is a very important study, it is a high quality, comprehensive one, the nature of the interviews and the assessment of the motivation and the leadership of these companies in doing what they have done, information gleaned from the interviews about the products and the way in which they have performed and developed make it the most comprehensive study of its kind and therefore for the development of Australian manufacturing exports a seminal work.

So I congratulate the Australian Manufacturing Council. I congratulate those people who have been associated with the work - Elizabeth Brian and Bill Mountsford and also McKinsey and Company who have undertaken the study and have produced a work, the substance of which were it have been produced any time in the first two or three decades after the War would have made this an entirely different country.

Q: Mr Keating, one of the problems which the report identifies is the problems which the companies have had in getting access to finance. It has been an issue which the Government has raised quite recently in testing ... Is the Government concerned about the banks unwillingness to lend to business in general and what is it planning to do to try and address this?

PM: I think the banks had in the first instance .. and they are now focussing on the sort of customers that can bring value to the bank. And I think therefore there will be the development of closer relationships with banking between banks and smaller businesses, that the cash flows and business opportunities of these businesses will be much more a focus of their lending than their assets than has been the case in the past. So I would not expect that we are about to see a revolution here, we will see a balance between cash flow lending and assets and a willingness to find new businesses to grow their ... to find new customers of quality. This is going to take a further cultural change in Australian banking and that is why the Government has in its 'Investing in the Nation' program talked about better information coming to the Government at the

Reserve Bank about lending practices of banks and trying to give Instance specific Information about how particular banks are relating to the customers. I think the banks understand this is a problem for the whole country and that they want to change, but again for them the change is going to be a relatively slow one because they just don't have that culture in their institutions and they have to acquire it.

Q: Mr Prescott, why has this report ruled out the impact of the recession, the report says that import drive is not being driven by low domestic demand, but surely local firms have been trying to find new markets as a result of the greater demand in ...

JP: I think the report shows that these firms have emerged through good times and more difficult times and that just as many firms were commencing to achieve this export status while the Australian economy was expanding as there were when it was shrinking.

MF: The analysis shows that the firms we are talking about are firms that have made a continuing commitment to an export culture. The research goes back several years, it goes back right through the 1980s, it shows no significant difference in pattern as to the number of firms that emerged in the early and middle part of that decade as has emerged in the last couple of years.

Q: Mr Prescott, how do we get the other 90 per cent of firms who haven't got the message yet about exporting. Do you have any ideas?

JP: One of the ideas, of course, is this meeting. And of course the whole idea in producing the report was to try and get a quality piece of research into the market place to inspire debate about some of the issues. This particular subject was first raised in the Manufacturing Council's Global Challenge report and what we sought to do in the last two or three years is to develop the various themes in the Global Challenge report and in the last couple of years of have sought to understand better what causes firms to export and this is we hope a quality piece of research - I think it is - that will lift the standard of the debate about these issues in this country and I hope it will be taken back into the industry organisations, into the trade unions, into work places, onto the shop floor and disseminated and debated so that a much wider cross section of opinion makers and movers and shakers in this economy will be motivated to respond. In fact, in short we see the performance of these 700 firms as quite inspirational.

Q: Mr Keating, is this report a vindication of your Government's policies? Does it mean that you have finally arrived, that you have done everything you need to do as a Government and it is over to business from here on in?

PM: I think it is an indication that the direction is right. As I said this is the, if you like, we are noting the success of these businesses, we are taking lessons from them and they have been growing rapidly, the value of their export merchandise has been growing rapidly. But from a relatively small base which means we have to encourage more companies to do more of the same. So the kinds of programs which have been there - that is beyond the big and important macro settings of the exchange rate, inflation, interest rates, the key competitiveness issues beyond those to programs like export market development grants, NIES, Austrade, those sorts of things - I think the reach of those programs will become important and the lessons of the success of these companies, as John said, an inspirational lesson is the one we want to transmit to the other manufacturers, domestic manufacturers who have not at this stage bothered with exports and I think it is a valuable lesson in indicating that the directions are right and that where we to have chosen for instance to have locked ourselves behind a tariff wall and continued to subsidise uncompetitive industries while the competitive ones in commodities were subject to lower and lower prices in world terms would have seen us certainly in trading and current account terms in an impossible position. This change has been a very profound one and of course, naturally if it continues the whole nature of Australia's merchandise exports will change.

Q: Do you think that the Government has to do more? The report talks about giving a hand up to exports, it refers to things like developing ... systematic comparisons between Australia and East Asian trading partners, in terms of competitiveness and so on. Do you see that the Government needs to more to give a hand up to these potential exports.

PM: Well I think we are trying all the time, and a cut in the company rate to 33 per cent which is largely the sort of ... area company rate program a very rapid acceleration and depreciation. Two investment allowances, one for projects over \$50 million and one for all projects, these are very much, I think, hands up to all Australian companies and then I suppose we may specifically say they are, well, hands up more specifically in areas such as export market development and NIES and Austrade and what have you, and refining these programs, I mean over the years we have sought during the ERC process of the Government to try and refine these programs down so that they actually worked better each time and I think taking the lessons of a study like this gives you a chance to refine them further.

Q: Mr Keating, the report talks about changes to the EMDG scheme and also ITES, obviously they are going to cost money, will you adopt it in the next Budget?

PM: Well again, as I said a moment ago these are things which we can continue to refine and obviously some programs will have better access,

people have better access to them, understand them better and they will be more beneficial to them than others. We try and work out what those programs are and to see how we can improve them and how we can make their reach more obvious and I think we will continue to do that.

Q: Prime Minister, if manufacturing exports reach the \$15 billion, that would slash the current account deficit and bring it down to a sustainable sort of level, is that the sort of macro effect that we can look forward to for ...?

PM: If these categories of firms were producing another, say roughly 2 per cent of GDP in exports, all things being equal, there would be no change in the level of imports and commodity prices being where they are, this would more rapidly bring the current account back towards its debt stabilisation point. But of course, as we know, nothing ever does stay equal. So all you have got to do is keep on trying and these firms could make a very solid contribution, particularly when we have got low prices. John (Prescott) and I were having a talk before we came over here just about the performance of BHP which is now exporting record volumes just about across all of its range of commodities, but at much lower prices. This is the thing, the world is largely in recession and prices are low, therefore the thing to be doing is exporting more volume of the things which we traditionally exported even at lower prices, and at the same time try and export these higher value added areas where you cut some of that difference away, which comes via the terms of trade.

Q: A question from the floor, Prime Minister, do you have concerns about one of the areas identified in the report is an impediment for exporters, and that is financial institutions that can't see their way into financing a lot of these areas. And secondly, it does detect, or it does talk about Australian concerns about businesses being subject to foreign investment and moving off shore, have you detected that sort of attitude in Australians, and is that a problem for getting more and more of these companies off the ground?

PM: Well I think it is always very hard to launch a new business at any stage. They are as hard to launch today as they have ever been. But most of these have got a history of domestic manufacture. I think one of the key points of the report is that it is an attitudinal question, it is really a leadership question. They have got the same products, they had the same products and the same, if you like, competitiveness features and the same opportunities, but some are doing it and some aren't. The difference is only leadership. Now, financing is part of this, of course, and I was asked a question earlier about the banks, I don't think I can add much more to what I said there. I think the banks recognise that there is a change going on here, but they have not been at the forefront of the change and they are trying to catch up, and I think we have got to give them marks for that.

Q: Prime Minister, does it concern you at all one of the findings of the report, which is that even if these companies go on exporting their heads off the job growth out of that is very small, only I think about 33 000 people over five years. That's not going to knock much of a dent in the unemployment problem we have got, is it?

PM: Well I don't think we are seeking to suggest that the growth of these firms is going to solve the employment problem. The employment problem, we are in a period of much higher productivity than we have been, we have got a much more productive corporate sector than we have had for years, and that means fewer people are employed in that process. How do you get more people employed? Answer, produce more product, I mean there is no substitute, I don't think, here for growth. That's the key point.

Q: Mr Prescott, what's your answer to the question on the banks, do you have a different answer to the Prime Minister?

A: No, I don't have a different answer to the Prime Minister, I would simply add that in many cases we are not just looking for traditional bank finance to support these firms, there are quite complex equity issues that are discussed in the report, and there are other concepts that need to be further explored for various types of new funds to provide development capital. There are no easy solutions to the finance one, but we are not just looking only at the banks.

Q: Mr Keating, are you concerned about the general investment requirement, and particularly in the last week or so the alleged uncertainty created by the Mabo issue?

PM: No. Look, the profit share in the economy is now nearly back to the late '80s, it is already above the 1960s average, if my memory serves me correctly. We have got a very competitive exchange rate, we have got - by our recent history - very low inflation and low interest rates and all these things, I think, mean that companies have been able to rebalance their balance sheets, that they are in a position now to look around for investment opportunities in a way they were not, say, two years ago. I think it has taken about two years longer than everybody thought to change the nature of balance sheets and to remove some of the gearing that existed into bill the profits and the savings of companies back up. Now, I think that is happening, I think companies are stripped down to do things and I think they will do things, and particularly with the investment incentives of these investment allowances, they are time specific. In other words, the projects only qualify if they are in there within the time frame allowed under the Tax Act. So, this is going to bring a fair bit on by itself as well as the traditional things of housing et cetera.

- Q: Mr Griffiths, from the perspective of a Victorian, we hear a lot of doom and gloom about the States manufacturing, can you see more promise from this report for Victoria?
- A: Well I think one of the lessons here is that Victoria is as well represented, and in many cases better represented than the national whole, that is a function, of course, of the reliance of the Victorian economy on the manufacturing sector. So, it is a good news story for Australia generally, and I suppose in that context for Victoria specifically, I would reiterate the sentiment that the Prime Minister and John Prescott stated earlier, and that is that in large measure success or otherwise is determined by firm leadership, and as I get around particular enterprises in this country, you can work out as you walk in through the front gate and after two minutes of discussion with the leadership and the work place whether these are can do companies or not. So, really the message is, I think, all about leadership.
- Q: Mr Prescott, you in your speech ruled out any of the means of ... manufacturing efforts, nevertheless ... (inaudible) talks about larger companies helping smaller companies get But what do you say to that approach and how do you foresee it coming about?
- A: Well it is a very wide ranging question, of course. But what this report talks about basically is three things. Firstly, how we build the more pervasive export culture in this country. Secondly, how we remove constraints to export success. And, thirdly, what are the key measures that might enhance export competitive advantages. Now, each of those three issues goes much deeper and much more broadly across policy making than just the idea of picking winners. But there are a number of examples in the report that show what individual firms and groups of firms can do to disseminate material. There are examples, for example, of firms that set up to disseminate research information that, if you like, provide a basis for bringing the providers of research to the knowledge of people that might be seeking that research base or may be able to take advantage of a particular piece of research. There are examples of firms that by marketing information, technology can improve the capacity of other firms to remove a number of constraints and to find more knowledge of the market place. Then there are other examples that go more directly to the question of sharing information, sharing management methods, there is a reference in the report to the advantages of the best practice program where firms that have succeeded in developing best practices can disseminate their methods to other firms to the collective advantage. Their methods, as distinct from their own competitive edge. There is a whole host of things that are brought out in the report where firms that get together can gain advantage from one another.

Q: Mr Keating, you talked earlier about the need for leadership and leaders don't grow on trees, so how are you going to increase the number of people who can come to ... International market in peace and comfort, do you expect just to, for success to breed success, or a domino effect if you like, or is there something more specific in there too, encouragement?

PM: Well I think the culture of the country has changed, I mean we are putting nearly eight kids in ten now through secondary school, and forty per cent of those into university, the culture in terms of the private research and development effort coming from companies spending more of their own income on R&D, availing themselves of the incentive of the tax concession available, the co-operative research institutions we now have there, the CRCs, which I think is a good and novel way of bringing business, institutions, and research institutions and universities together: this sort of change is, I think, demonstrating to many managers and owners of businesses that develop an initiative product and you can basically draw some economic rent from it, and I think that is the lesson. I think the launch of this particular report and the coverage of its contents is just another example of how we will get that impression over. Plus, the fact that we are very, very competitive. I mean there are very few products now that we can't be competitive in an export markets. This just makes an obvious point to somebody who is battling to either keep a business together or to grow it, and as the best practice programs and the rest start to proliferate and move through the economy the culture generally changes, and of course these are the companies that are going to earn more. If they earn more and they become publicly listed companies, they are going to have a higher premium on them. Therefore the whole culture reinforces itself again.

Q: Mr Ferguson, do you see a correlation between progress towards enterprise bargainingcorrelation on the grim export culture of the companies, is there any apparent correlation between those two things, or are they

A: No, I think they are very much integrated. I think you will find that the company is adopting a leadership position on the industrial relations front, also the company is adopting a leadership position in respect to ... your export. The reality of life is, when you talk about best practice you are talking about an integrated approach looking at industrial relations, the question of export culture, investment in research and development, they are all interrelated and it is those companies that adopt that leadership position that are going to lead this country in the future.

Q: Mr Keating, how does the Government propose to respond to the recommendations in the report today?

PM: Well I think that many of the features of the report already cover, not just the macro-economic influences of policy, but also the specific programs we have there like EMDG... et cetera. But I think from our point of view what is interesting is the quantification of the success of these firms, peering behind their managements to find out what did motivate them and how they have done it, which itself gives us clues about how we ought to direct policy in the future. I think in terms of any of the specific schemes we have, I would think, we will seek to take lessons from such an exhaustive study and try and improve those. But I think perhaps more than anything else it just underpins again what we have believed; that is, that our future is as an exporter not just of our traditional things but of the higher added value products, and that we can do it and the difference is not about competitiveness or about the products or quality, it is about really attitude and leadership and I think knowing that is a very handy thing for the Government to know to devise further progress along this path, and that might go to designing some of these schemes more closely or improving them, but will probably go to proselytising about the prospects of added value and the likelihood of success.