



PRIME MINISTER

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STATEMENT BY THE PRIME MINISTER, THE HON P J KEATING MP

LAUNCH OF "EMERGING EXPORTERS"

Today I am pleased to launch the final report "Emerging Exporters: Australia's High Value-Added Manufacturing Exports" that was prepared jointly by McKinseys and the Australian Manufacturing Council. I acknowledge the role the AMC has played in commissioning research in this important area.

The key findings of the study - that we have a significant group of dynamic small firms achieving export success - are now well known. The growth of these exporters is evidence of the transformation of the Australian economy since the mid-1980s.

This transformation did not happen by chance.

It reflects Australian firms responding to competition in the international market place.

It reflects our well trained workforce and our strong technological base.

It reflects increasingly competitive communications and transportation systems.

It reflects government policies that have opened up the Australian economy and encouraged innovation and the emergence of new firms.

And above all, it reflects the ingenuity and commitment of many individuals, of a new breed of Australian entrepreneurs.

It is these individuals who have recognised and taken opportunities. Some have built their success on unique products, others on innovative approaches to marketing. But they all have relied on providing quality Australian goods tailored to the needs of their customers.

The study has identified 700 firms that have been central to Australia's success in raising our exports of elaborately transformed manufactures in recent years by 15 per cent each year on average.

This is impressive, but it is not enough. These successes are from a relatively small base.

The challenge now is to encourage the development of new firms. Even more importantly, it is to encourage more of the 90% of existing manufacturing firms who are not actively engaged in the international market place to do so. It will never be easy to export for the first time, but the rewards for those who persevere can be immense. These will be the firms of the future, and the leaders will be Australia's business leaders.

The conditions for success have never been better. Our production costs and our exchange rate are extremely competitive; our inflation rate is among the lowest in the world; the tax changes introduced in *Investing in the Nation* mean that we compete favourably not only among OECD countries but also in our region; our work practices are becoming much more responsive; our workforce is better trained; and our research effort has been strengthened and directed increasingly to commercial applications.

Emerging Exporters is largely a message for our entrepreneurs, managers and other employees. It shows how we can succeed even in today's difficult economic circumstances.

The report also contains important messages for government policy.

Economic policies under Labor were pivotal in many of these 700 success stories. As the report makes clear, tariff reductions have forced manufacturers to become internationally competitive - and once a company is competitive, looking to overseas markets is an obvious step. This change in culture has been profound. For example, three-quarters of the emerging exporters identified by the study have recently begun exporting after an average of 27 years of domestic activity.

The report also highlights the importance of other government policies to these firms, policies that include direct incentives for exports, support for research and development, microeconomic reform, cooperative industrial relations and so on.

These policies have produced results, but just as individual firms need to be responsive to changing demands so too policy needs to be responsive and relevant.

The Report makes a number of policy recommendations of both a general and specific nature. Many build on or modify existing programs. My Government will be closely examining these, but some brief comments are warranted now.

Changing Attitudes

Attitudes are changing, but some fundamental messages must be driven home. That is why today's report is so valuable, and why the Government welcomes the Australian Manufacturing Council's continuing involvement in encouraging dialogue and spreading the message.

A central message is that exporting requires attention to quality and service. This was the motivation behind the launching of the Australian Quality Council in March earlier this year. It is also why the Australian Quality Council is working with NIES to introduce a Best Practice manual for small and medium sized enterprises (SMEs).

The Report also recommends that the Australian Best Practice Demonstration Program be more consciously targeted at SMEs. The Government will examine how to more effectively demonstrate best practice to SMEs.

Market Access

The Report contains some important observations about access to markets, particularly to Asian markets, that go beyond the rules of the game that governments set. Of course, an open multilateral trading system is needed to ensure that our exporters have appropriate access to their markets and thus resolution of the remaining hurdles in the Uruguay Round is a very high priority. Also, we are actively engaged in enhancing regional trade through APEC and our bilateral relationships.

There is a pressing need to change the image potential buyers have of Australia. Our image as a country of wide open spaces and unique wildlife has served our tourist industry very well, but the report identifies the need to also present Australia as a modern, sophisticated society where high tech products equally reflect contemporary reality as the quality of our beaches.

We are committed to broadening perceptions of Australia. This will require a quire a continuing strategy on a number of fronts including, for example, the recent commencement of ABC TV services to the region. We will also explore, with business, whether a jointly funded campaign to change our image abroad should be developed as recommended in the Report.

The Report highlights the hurdles that many of this group of emerging exporters face in getting started in overseas markets. Because it is difficult to go it alone, business organisations and the NIES program have helped to getting firms to form themselves into clusters or networks. We can develop these mechanisms much further. The establishment of common marketing, distribution and other support facilities in strategic locations in Asia, including some of the foreign access zones that operate there, would assist many potential entrants. The direct involvement of Australian banks would strengthen the operation and put the banks in a better position to assess the risk associated with particular exports.

Technology

The report highlights the critical role that innovation plays in fast-moving international markets.

Our policies are playing a key role in supporting business research and development. We have made the 150 per cent tax concession for research and development a permanent feature of the tax system, provided a range of grants for industrial research and development, provided funding for CSIRO, and set up the highly successful Cooperative Research Centres program.

Australia now has one of the fastest growing rates of business R&D in the OECD. Of course, much more needs to be done: our level of business R&D is still on the low side by world standards.

The report suggests that we need to ensure that our programs are effectively targeted and delivered. The competitive advantage of many of the emerging exporters identified by McKinseys relied in large part on a particular technological edge. In most cases this technology was developed within the firm with few of these firms having research connections to outside research institutions such as the CSIRO or a university.

I welcome CSIRO's current work in progress on developing a strategy to build better links with emerging exporters and smaller businesses. In addition, the Industry Commission's inquiry into research and development will look at incentives and impediments to the creation of linkages between research agencies, higher education institutions, and business.

Finance

The availability of finance is a major issue for many emerging exporters who do not have the support of a large parent. The reasons for this are clear – there is always a high failure rate among smaller firms while expanding into new ventures, especially exports, can be very risky. But the rewards can also be very high and as a nation we need to be able to supply adequate finance to this group of emerging exporters.

In *Investing in the Nation* we encouraged the banks to go further down the path of developing close relations with their business customers. The Treasurer will very shortly be in a position to announce the details of the measures in *Investing in the Nation* and see them put into effect. One of these measures will be the establishment of a business advisory council that will advise the Reserve Bank board on the concerns of small and medium size enterprises. The Governor will report on the advisory council's deliberations to both the Treasurer and Minister for Industry, Technology and Regional Development who confronts the question of finance routinely in his discussions with industry.

In many cases traditional bank finance will not be appropriate. It is important that other forms of finance, both debt and equity, are available on suitable terms. Monitoring the availability of all forms of finance will be a priority of Government as economic recovery proceeds.

Support for Exports and Small Business

Small and medium sized enterprises (SMEs) have provided the engine of growth in Australia and indeed in most advanced countries in the last few years. By the end of 1993 employment in small firms exceeded that in larger Australian companies for the first time. During the recession new jobs have continued to be created in smaller companies. This study shows how many of them have succeeded in export markets.

The Government has placed considerable emphasis in giving small business a "hand up", particularly in the areas of developing export markets. A number of programs have been effective:

- Export Access provides training and practical assistance in developing an export strategy, and is expected to reach 700 companies over four years;
- AUSTRADE is helping an increasing number of small firms to enter markets overseas, and is establishing more services specifically designed for the needs of SMEs;
- The Export Market Development Grants program, administered by AUSTRADE, has helped most companies which have succeeded in overseas markets;

- The NIES program, jointly funded by the Commonwealth and the States, provides consultancy services to SMEs which can improve their performance in a range of areas.

In many countries the emphasis of industry policy has been changing in favour of smaller companies and away from bigger firms, which often have the information and resources needed to look after themselves.

While the Government already assists smaller firms in a number of ways, as we have seen, the nature of the support for this sector and the effective coordination of programs will be examined in the coming months. The findings and recommendations of the AMC-McKinsey study provide a valuable contribution to any assessment of the policy environment for smaller Australian companies.

CANBERRA
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