



PRIME MINISTER

**SPEECH BY THE PRIME MINISTER THE HON P J KEATING MP
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Let me begin by congratulating the Financial Review for taking the initiative in organising this conference on the future of Australian industry.

Just a few years ago there were some who would have placed a question mark at the end of the title of any conference on Australian industry.

And the agenda would have largely revolved around tariff levels and sectoral support measures.

At such a conference there would also have been those who argued we would be better off to turn our backs on the reforms of the 80s.

We should, the argument would run, have re-regulated the economy and returned to a regime which sheltered Australian industry from a more competitive world.

At the heart of that debate was a test of our national will and a test of our national nerve.

Last week in Jakarta I saw the results of having passed those tests.

In Indonesia I had the privilege of opening Australia's biggest ever trade promotion in that country.

More than 200 exhibitors participated in an impressive display of just how much Australia has to offer the world and, in particular, the Asia Pacific.

After visiting the exhibition you could not fail to be struck by what a distance we have travelled in the past decade.

The overwhelming impression the exhibition projected was of a diverse, vibrant economy with world class capacities in services and manufactures.

Industry sectors ranging from building and construction to education and training and from marine, engineering and manufacturing services to power and energy were all strongly represented.

So I come to this conference this morning with fresh evidence of what Australian industry is achieving and a well-founded confidence that we will build on these successes.

The Financial Review has therefore picked a very appropriate time to stage an examination and discussion of industry policy.

As a starting point the Government does not see industry policy being developed and implemented in isolation from the other major policy streams.

Industry depends for its success as much on macro-economic, industrial relations and trade policy and micro-economic reforms as it does on specific industry development and support measures.

In fact, much of what we are striving to achieve in industry policy is intertwined with our objectives in these other areas.

Industries committed to world best practice need a Government committed to ensuring the domestic impediments are cleared away.

Our industry policy is, therefore, in many respects an international competition policy which seeks to identify and encourage those characteristics we need to be able to compete in world markets.

Australian industry should approach the future with optimism.

Few other developed countries can match the circumstances in which Australia presently finds itself. Few countries have such good prospects for growth.

No predictions for the future of Australian industry can be made, however, without comparing its condition now with the situation of a decade ago.

While we had some strong export industries at that time - particularly in mining and agriculture - the manufacturing sector was still sheltered from international competition by absurdly high tariff barriers.

For all this protection, the reality was that industry was not strong.

The steel industry, with our resource endowments, should have been one of the nation's strongest industries. Instead it was going out the door backwards.

Australian made cars were becoming less and less competitive - both in terms of price and quality. The response of the outgoing government was to propose yet more protection, with tariffs of up to 125 per cent.

While other countries were increasingly participating in world trade, we were putting the shutters up.

When we introduced the first tranche of tariff reductions we were warned we would have a disaster on our hands. While the last generation of Australian managers may have been found wanting in certain respects, they certainly had an entrepreneurial approach to finding reasons for government assistance. We were told that our market was too small to allow international competition, our labour force was unskilled, lazy and strike-prone and that nobody else had a level playing field and so why should we.

Instead we have a story of outstanding success.

Exports of elaborately transformed manufacturing have grown by 17 per cent a year since 1988, one of the very highest rates of growth in the OECD. Services exports, which have grown by about 9 per cent a year, now account for 20 per cent of exports.

Small firms have emerged from the former torpid business environment and become innovative and export-oriented - McKinsey has identified more than 700 small and medium manufacturing exporters.

Foreign-owned companies that told us they could well leave Australia without protection, have invested in state of the art plant, competed successfully with imports and also entered export markets.

Whole industries that were set to be counted among the dead or dying have undergone Lazarus-like revivals.

Firms have embraced innovation, giving us one of the highest growth rates of business R&D among developed economies if even from a relatively low base.

The reasons for such success are complex. Partly it is due to the basic skills that were lying dormant in Australian industry. We were also helped by some natural good fortune, such as our location in this dynamic region of the world and the fact that we are reaping great benefits, in terms of productive diversity, from our multicultural population.

Some credit must also go to the Government, for having the courage to take the hard choices and stick with them.

Policies in a range of areas will support the future growth of Australian industry, and a continuation of its success in world markets. They will help us maintain high rates of employment growth so we can reduce unemployment. We want to bring an unemployment rate of 5 per cent within our grasp by the

turn of the century. To achieve this, we must have a high rate of economic growth. We must also ensure that this growth is sustainable.

We have made an impressive start.

We are growing at an annual rate of 5 per cent, which makes Australia a star performer among OECD countries. We have added 260,000 new jobs over the past year and reduced the unemployment rate to under 10 per cent. Inflation is running at less than 1 1/2 per cent and expectations are for a continued low inflation environment.

As a nation we can take satisfaction from this progress.

But even more importantly, we can expect to see strong growth with low inflation continue.

Of course, there will be the permanently miserable who will want to talk up the risk of the economy overheating, of economic boom followed by economic bust. In their minds, the risk flickers from too little growth to too much growth.

But the reality is quite the contrary. The nature of this recovery gives us confidence that strong growth can be sustained. We have what we term a "rolling" recovery.

Initially, the recovery was driven by public demand, the pick up in dwelling investment and strong exports. The strong export performance is set to continue, but as the recovery proceeds the stimulus from the public sector is quite deliberately being wound back while the dwelling cycle will naturally begin to wane. In its place, business fixed investment will both support overall demand and provide the wherewithal for greater production.

The rolling nature of the recovery is not limited to what is happening in Australia, it is also a characteristic of what is happening internationally. Some of you may have seen a short article in the latest *OECD Economic Outlook* reporting that major OECD economies are not synchronised in their current cycles. The US recovered earlier than Japan and much of Europe which are both now beginning to turn.

The consequences for Australia are very healthy. Commodity prices have not gone on a roller coaster, with the result that our exchange rate has been more stable. Our traders continue to benefit from favourable international competitiveness which is still around 30 per cent better than in the early 1980s notwithstanding the recent rise in the Australian dollar.

Moreover, as this international cycle has helped keep inflation low worldwide so our rolling recovery has helped in Australia. The OECD now sees inflation remaining between 2 and 2 1/2 per cent over 1994 and 1995.

We have established a low inflation culture and we intend to keep it.

We have not done this by telling the Reserve Bank to blindly pursue zero inflation and then washing our hands of the matter. Instead, we have given inflation a central role in all economic policy.

Of course, monetary policy has a major role to play in containing inflation. But monetary policy, by itself, doesn't deliver a change to the culture of inflation. It is too indiscriminate and cannot be left to apply indefinitely.

Today's low inflation has been achieved through monetary and fiscal policies as well as through the Accord with the unions and the flexibility we have introduced into the supply side of the economy. The attitudes of those directly involved in setting prices or wages have been changed.

And it is these changed attitudes that are at the heart of keeping inflation low. We won't achieve that by relying on any simple-minded formula to control interest rates. Instead, we need to maintain comprehensive policy action through:

- the continuing commitment to low inflation via the Accord VII;
- the improved responsiveness of our workplaces to enterprise bargaining and higher skill levels;
- the lessening of the risk of bottlenecks by re-engaging those unemployed for lengthy periods with the labour market;
- the greater competition to our product markets from domestic and international sources, via the exchange rate and lower tariffs;
- the progressive winding back of fiscal stimulus as the recovery proceeds; and
- when action is warranted, appropriate adjustments to monetary policy.

All of this represents a mature approach to policy. And the increasingly mature approach to business that we are seeing in our workplaces is also delivering results.

The Accord will continue to play a central role in wages policy. It has been crucial in achieving appropriate aggregate wage outcomes since 1983 and pulling inflation down. It has facilitated the move towards a more decentralised productivity related wage fixing system.

Enterprise bargaining has become the primary focus for wage fixing and a vital catalyst for workplace reform. The new industrial relations legislation provides the framework to achieve the labour market flexibility, productivity growth and wage restraint necessary for strong and sustainable economic growth.

As I announced in *Working Nation*, the Government aims to see 80 per cent of employees in the Federal award sector covered by direct bargains by the end of 1996.

In addition, awards will be reviewed and simplified.

Working Nation spells out the close interrelationship between industry policy, the creation of secure and rewarding jobs in flexible high productivity workplaces, and the policies we need to educate and train the work force that industry needs.

Working Nation contains a number of important initiatives to get unemployment down and the skills of our work force up - including a Job Compact for those unemployed for over 18 months, and a Youth Training Initiative.

Under these initiatives training and jobs will be provided for people who have become marginalised from the mainstream of economic life during the recession.

We want to ensure that this is a recovery for all Australians - not just for the top end of town.

But the case for doing so is not just based on equity arguments, important as they are. Failing to address long-term unemployment would be very costly to the whole economy.

But we are succeeding in meeting this challenge. In the past three years, close to a quarter of a million long-term unemployed workers have been hired by employers through JOBSTART subsidies alone.

As from yesterday, the attractiveness of Jobstart has been improved. Subsidies have been increased, the period of subsidy has been extended to 9 months and a bonus payment is available to employers who keep these workers on for a year.

Employers will also have the incentive of the new training wage which will be payable to all unemployed people and new entrants to the labour force. Together with Jobstart, this will mean an employer will be able to receive subsidies ranging from \$5000 to \$8260 for taking on a long-term unemployed person.

The training initiatives in the White Paper were also directed to the longer term needs of industry. They encompass a comprehensive strategy to enable industry to sharpen its competitive advantage through getting the training it needs.

We all must recognise that training is not a welfare issue. It is not something the Government is promoting because we feel sorry for the unemployed. Training is a mainstream economic issue, and promoting training is the responsibility of all of us - business, unions and government.

Both management and work force skills are vital to the competitiveness of firms. Access to capital and investment in technology are important of course, but these can often be replicated by competitors. Replication based on the skills of individuals in a firm's work force is much more difficult.

Whatever the reasons for the failure to invest in training in the past, *Working Nation* wipes out any excuse for this state of affairs to continue.

The Government has set up NETTFORCE, chaired by Lindsay Fox and including Ivan Deveson, Bert Evans, Ted Wright and Bill Kelty as members, to ensure companies are aware of the benefits available, and assist them to take full advantage of them.

NETTFORCE is developing 21 national, industry-based traineeships. It aims to cut through the delays of the past and provide employers with a one-stop shop to put together training and industrial packages to get trainees employed quickly.

Industry is being given the opportunity to have more say in early vocational education. The Australian Student Traineeship Foundation announced in the White Paper will provide funds directly to local groups, which may be committees of employers, to run traineeships for year 11 and 12 students. Students will combine school studies with work experience in local industry and off-the-job training. The traineeships will allow young people to complete their training in a shorter time.

Industry must set the direction of training and drive the administrative processes so that they are simple and relevant to the needs of firms.

To show our faith in this approach, the Government has suspended the Training Guarantee Levy. Now it is up to industry to take advantage of the funding we have provided. It is up to industry to take control of the training agenda.

Industry must play a strong, positive role and capitalise on the opportunities the world is offering. The game plan has been spelt out in *Working Nation*. There, we have set out a comprehensive industry policy that will help Australian firms achieve world class excellence. It is about providing a competitive environment for doing business and enhancing the capacity of businesses to succeed by being competitive - both in Australia and on world markets.

Tax policies have worked to reduce industry costs and enhance our competitiveness. Australia is the lowest taxed country in the OECD. *Working*

Nation includes tax initiatives to encourage private investment in public infrastructure, investment in smaller and medium sized enterprises and the location of regional headquarters in Australia.

The Government's telecommunications, Government Business Enterprises, shipping, aviation and waterfront reforms are reducing input costs, increasing the quality of goods and services and ensuring the reliability of supply.

We've introduced competition to telecommunications and seen domestic call rates fall by about 13 per cent and international rates by more than 25 per cent in the past three years. Further falls in prices and improvements in service quality and diversity can be expected as carriers position themselves for increased competition after 1997.

While domestic costs have been cut, the export sector of the telecommunications industry is thriving. Exports reached \$545 million during 1991-92 and are likely to grow to as much as \$2 billion in 1996-97.

In shipping, the average crew level on Australian ships has come down from 28 in 1989 to 18 and is expected to be reduced to as low as 16 in 1995. These reductions will save over \$80 million a year across the Australian flag fleet, or about \$1.2 million a year on an average ship.

On the waterfront, the workforce has been reduced from 9000 to fewer than 4000 in the face of strongly increasing trade volumes, more than doubling labour productivity. Container handling rates in the more efficient terminals are now at levels comparable with our trading partners. Ship turnaround times have been cut by nearly 45 per cent. Truck queues and waiting times are much shorter.

We are increasingly looking to the States to achieve, in partnership with the Commonwealth, rapid progress with the reform priorities that remain. Here governments are working to reform electricity, gas and water supplies, further maritime reform, and to reform the legal profession. Industry will benefit from lower input costs and better services.

Most importantly, we are working with the States to implement a national competition policy, which will increase the transparency of pricing practices of public monopolies and provide a more systematic basis for reforming public utilities, the professions and agricultural production and marketing.

The transformation that our manufacturing and services sectors have undergone during the past decade has produced a new generation of firms and business leaders.

No longer are they producing just for a protected domestic market, accepting second best methods.

Rather they are operating at the leading edge of their industries using world best practices and technology.

Our industry policy reflects these changes. From a phase when the focus was on opening up the Australian economy, we have moved to policies which support our firms to grow, be innovators and ultimately prosper in world markets.

Access to finance will be improved through a range of measures including the provision of expert advice, promotion of the role of the Commonwealth Development Bank, greater tax concessions for equity finance provided by Pooled Development Funds, and the extension of the Export Finance Insurance Corporation's facilities to cover the services sector and manufactured goods.

Innovation will be encouraged by a more generous R&D tax concession, a program assisting small and medium sized enterprises (SMEs) to commercialise new technology and a national network for technology access and diffusion.

Management and marketing skills will be encouraged by expanding enterprise development services to SMEs including a major effort to target potential exporters focusing on innovation, quality, research and development, marketing and management skills. SMEs will also be helped to form networks and alliances.

SMEs will benefit from the National Regional Development Strategy that will provide more than \$150 million to regions over the next four years to enhance the development of their competitive industries.

The establishment of AusIndustry within the Industry, Science and Technology portfolio will improve coordination and delivery of programs and bring together all the Commonwealth's business assistance programs under a unified marketing structure. The Chair of AusIndustry's Advisory Board and a significant proportion of its membership will be drawn from the private sector.

AusIndustry will provide the entry point for all Commonwealth business improvement programs and, through the existing network of the National Industry Extension Service, provide a major link to State and Territory programs.

The successful pursuit of global markets is vital to the future success of Australian industry. The growth of world trade has been faster than the growth of world output in nearly every year since World War II - and much of this growth has been happening right on our doorstep with exports from the developing Asian countries growing at twice the rate of world exports over the past decade.

The successful conclusion of the Uruguay Round and the creation of the new World Trading Organisation will add around \$400 billion annually to the world economy. For Australia alone the Uruguay Round will be eventually worth an annual \$5 billion.

As well as big gains for Australian farmers and miners, the Round outcome will bring great opportunities for our manufacturers and services exporters.

The Round achieved the largest global tariff cutting package ever negotiated - with tariff cuts on products of interest to Australia of more than 50 per cent.

The new GATT agreement on services will allow Australian services exports, already worth some \$15 billion, to compete on an equal footing in this fast growing \$1 trillion (\$1,000 billion) area of world trade. Sectors such as telecommunications, banking, insurance, professional and business service sectors stand to benefit substantially from this agreement. On current trends by the end of next year Australia could well be a net exporter of services.

With APEC, we are working to build an enduring framework for trade and economic relations in the Asia-Pacific. Already, APEC is doing work that will greatly facilitate Asia-Pacific trade and investment.

In November this year, I expect APEC leaders will endorse a set of investment principles that will define some common approaches to the treatment of foreign direct investment flows. Work on harmonising product standards and mutual recognition of standards and conformance arrangements is also proceeding well. This will have tangible benefits for Australian businesses trading and investing in the region.

Having recently met President Soeharto, who will chair this year's APEC leaders' meeting, I am convinced that in November APEC leaders will again push APEC on to a higher plane of activity. President Soeharto and I both want our region to be actively involved in liberalising trade, facilitating commerce and strengthening economic linkages between APEC members, whose economies are now the powerhouse of the world economy.

And we want business to drive the APEC process. After all, business, not government is responsible for the high level of economic integration amongst APEC economies - intra-APEC trade is even higher than intra-EU trade.

Business now needs to give APEC governments a clear message on what it wants. One way this will happen is through the APEC Business Forum, which was established by APEC leaders last year in Seattle and will report to the November 1994 leaders meeting in Bogor, Indonesia.

We are exploring with ASEAN countries the possible link between CER and the ASEAN Free Trade Area (AFTA). This is an attractive proposal. Our economies are very complementary and linking them could create a market of 335 million people with a GDP of about \$1 trillion. ASEAN members have

agreed that the idea merits further consideration and we will continue to discuss it with them.

At home, the Government is working directly with exporters through Austrade's and other exporter assistance programs and in industry-based strategies - such as for those for agri-food, construction, and health services - to jointly harness Government and industry export efforts.

Australia is on the threshold of a new and exciting era.

Australia has opened up, culturally and economically, to the rest of the world. We are ready to reap the harvest of opportunities presented by the new technologies, the new era of trade driven world growth and our proximity to the most dynamic and fastest growing region of the world.

Our immigration and multicultural policies have nurtured a unique human resource on which astute businesses are beginning to capitalise - a culturally and linguistically diverse nation, whose migrant and ethnic communities are drawn from all parts of the world, including our fastest growing export markets in the Asia-Pacific.

All this means that Australia can become one of the great social democracies and one of the great trading nations - a nation with a vibrant, multi-dimensional culture underwriting a strong, vigorous and internationally competitive industrial base trading extensively in all the continents. Our cornerstone will be especially close links to the Asia-Pacific nations.

In all this, industry must play a prime role. Industry must be able to capitalise on the full range of skills, talents and potential in Australia's human resources, including its youth, its women, and its many migrant and ethnic communities.

There is still a long way to go. We will succeed because we are a naturally innovative nation with the will to change. Our unique combination of policies to free up markets, while ensuring social justice for all, provides the opportunities, fairness and cohesion needed to succeed.

Thank you