



PRIME MINISTER

SPEECH BY THE PRIME MINISTER THE HON P J KEATING MP WORLD CONFERENCE OF THE INTERNATIONAL COUNCIL FOR SMALL BUSINESS, SYDNEY WEDNESDAY 21 JUNE 1995

CHECK AGAINST DELIVERY

I am grateful for the invitation to speak to you at the closing of this 40th World Conference of the International Council for Small Business.

I want to use this speech to say some things about Australia's trade policy and what we are doing to help our business people make the most of the enormous opportunities which exist in this Asia-Pacific region, the fastest growing in the world.

The Minister for Trade, Senator McMullan, is today issuing a statement called "Winning Markets: Australia's future in the global economy" and I want to use this opportunity to formally launch this document.

This international conference about small business is an appropriate place to do this because one of the things which has been very much on the Government's mind in drawing the strategy up is the increasingly important role of small and medium businesses in Australia's trade.

I also want to use the opportunity to speak to those of you who are here from overseas about the opportunities for business in Australia. Because this country offers overseas investors a very competitive environment, and is an ideal base for companies - including small companies - wishing to tap Asian markets.

It is now a very familiar notion that the globalisation of production is dramatically reshaping the way national economies work and businesses operate. More than one third of world trade is now conducted by firms trading within their own structures across national boundaries.

I am sure this has been a theme of many of the formal and informal discussions you have had at this conference.

The driving fact behind globalisation, of course, is the rapid movement of people and information. Indeed, the movement of people and information rather than goods is the fastest growing segment of world trade.

The information revolution has generated whole new areas of business - many of them created by small enterprises - and it is transforming the way other business is done.

More and more firms, for example, are marketing their products and services, locating their production, conducting their research and sourcing their materials wherever in the world it makes the best economic sense to do so.

Your choice of Sydney as the venue for this conference reflects these changes. The Council's World Conference has convened outside North America only three times since it first met 40 years ago. And all three of those meetings have been in the past five years.

The globalisation of production is confronting businesses with unprecedented challenges. And small and medium-sized enterprises are no more immune from these changes than are large ones.

Markets in most economies are becoming increasingly contestable. For small and medium-sized businesses increasingly that means opportunities abroad and overseas competition at home.

The result is that few businesses, including smaller ones, can afford to look to domestic markets alone. This is especially so in Australia with our relatively small population and an economy tightly integrated into world markets.

But despite these challenges, small and medium-sized enterprises may, in fact, be the best placed to exploit the opportunities of globalisation.

They tend to be less bureaucratic than large firms and more innovative and responsive. They have probably gained most from those improvements in communications and transport which have reduced the cost and complexity of international business.

Globalisation has also been driven and encouraged by the great growth over recent years in direct foreign investment. In the second half of the 1980s foreign direct investment grew at an annual average rate of 30 per cent, more than twice the rate of world exports.

The trend has been obvious for Australian investment. In 1980 this country's stock of equity investment overseas was around \$7 billion. By 1994 it was around \$80 billion.

Australian companies have understood that, in a world of integrated production, often the best way to secure entry into a market is by establishing operations there.

And as we have seen here, such investment will often lead not only to increased sales in the new market, but also to more exports from Australia.

This country's small and medium-sized enterprises have been vital to the success of our shift towards an internationalised economy. Around 4,500 such Australian businesses are now regularly and actively involved in international trade. They generate \$6.5 billion in international turnover. And we expect this to double over the next five years.

But a great many other small and medium businesses - farmers, tourist operators, hotel and transport providers - are also responding to the challenges of international trade. Their level of involvement is certain to increase.

Success in global markets is vital for Australia's continuing prosperity.

During the past decade this Government has reversed the long-term decline in Australia's performance as a trading nation. In 1980 the proportion of our GDP provided by exports of goods and services had fallen below the OECD average. In 1993 it was again above it.

Our exports of manufactures have been doubling every five years.

They now account for almost one-third of our total goods exports.

We have also diversified the composition of our merchandise trade. The most dramatic shift has been in the value-added area - precisely where it was most required.

Five years ago, elaborately transformed manufactures accounted for 16 per cent of our merchandise exports. Last year it was 22 per cent.

Another major shift has been in the strong growth of our exports of services. These now form a quarter of total exports. In fact, the services trade deficit is now less than a third of what it was a decade ago. On current trends, we will soon have a surplus.

Tourism and education make an enormous contribution to services trade, but we are also seeing rapid growth in telecommunications, financial services and legal services. Australia now has a trade surplus in computer software, for example. Earnings from exports of computer software have grown by 60 per cent over the past five years to nearly \$400 million.

The *Winning Markets* trade strategy which Senator McMullan is releasing today is designed to improve on this performance. It reflects extensive consultation with business, and is focussed particularly on getting smaller Australian firms export-ready and operating off-shore.

Australia's natural resource-based exports - minerals and agriculture - are, of course, the core of our export trade and they will remain so. Increasingly we are adding value to these exports and tailoring them to particular markets.

Winning Markets gives greater priority than in the past to value-added exports, and especially in manufacturing and services. This is in part because these are the areas where the Government can add its own particular value for our exporters at present.

The *Winning Markets* study starts by acknowledging that the factors that will determine Australia's success as a trading nation are our fundamental economic policy settings, our access to overseas markets, and the extent to which we can develop a trade and investment culture, especially among our small and medium-sized companies.

It recognises that our trade performance depends, often crucially, on domestic factors.

In Australia's case, our macro-economic policy settings have provided a solid basis for our exporters. We have kept inflation low, and growth high.

We have introduced greater competition through lower tariffs and, more recently, the adoption of the Hilmer reforms on competition policy, thereby reducing the costs of doing business.

We have a national commitment to invest in innovation and research and development. Later this year, the Government will bring down a statement on support for innovation and best practice in Australian business

Over the long-term, one of the things which will matter most for our future is the investment the Government has put into upgrading education and training for our workforce.

Over the past decade the proportion of students completing year 12, and the proportion of young Australians going on to university, have more than doubled. We have opened up tens of thousands of opportunities in vocational training.

The skills base and the technical excellence we have nurtured, our world class scientific and research base, our telecommunications capacity - these are highly prized assets in a fast growing region where individual countries are in fierce competition for resources and wealth.

These are all quality reforms with lasting benefits.

But, of course, just as you need to continually meet new challenges to stay ahead in your businesses, Government must be able to respond to current developments in its policy settings.

And that is what my Government has been able to do time and again.

I am pleased to say that you will see further evidence of this tomorrow when we meet with the major union groups to conclude a further agreement under the Accord.

This will ensure a continuation of low inflation and job creation. It will provide the means for us to radically lift our national savings performance.

I am also pleased to be able to let you know that it will address a particular concern of many businesses domestically, namely the treatment of unfair dismissals.

It is crucially important that all employees can feel confident that they will be treated fairly in their place of employment. After all, Labor Governments have been traditionally concerned with the rights and protections of workers.

One of the most important areas where employers have considerable responsibility is to ensure that in the event of dismissal of employees the action is not harsh or unjust or unfair, and that the right weight is given to following correct procedures.

In the area of unfair dismissals, the Government is committed to shielding employees from the small minority of unscrupulous or unjust employers who may not at times be acting ethically in this area. The Government will maintain this principle in its approach to questions of dismissal.

With this as background it may still be the case that some of the application of the current unfair dismissal laws have not always been what all business, and small business in particular, have thought is right. Indeed, there have been expressions of public concern that the Government is interested in addressing.

The essential challenge in the area of unfair dismissals is to get the balance right between the right protection for employees and making sure that the process is not so legalistic as to mean that the system is not working properly.

Laurie Brereton and I have talked through this issue with both the ACTU and a number of employers and employer groups.

As a result of these discussions it has been decided to take some action in the area of unfair dismissals, and the Minister will be announcing further details this afternoon.

Ladies and Gentlemen,

The Government's policies have delivered tangible success.

Australia's international competitiveness has increased around 40 per cent since the early 1980s.

This competitiveness is reflected in the number of companies establishing regional headquarters in Australia.

Since 1993, when the Government intensified its efforts to attract regional headquarters here, another 54 companies have located operations and brought jobs to Australia. These include firms like IBM, Oracle and Data-General.

The reasons are straightforward:

- . our management pool is 7 to 8 times bigger than Singapore's and 3 to 4 times bigger than Hong Kong's
- . office accommodation in Australian capitals is some 6 to 8 per cent less expensive than comparable space in Singapore and Hong Kong
 - we offer high quality, low-cost expatriate accommodation, health and education
- . our international telephone calls are about the cheapest in the world
- . we have well qualified and highly competitive support services, such as lawyers, accountants, management consultants and computer specialists
- . Australian salaries for qualified and professional executives are 60 per cent more competitive than Singapore and 50 per cent more than Hong Kong
- . our rapidly expanding commercial and cultural ties with the Asia-Pacific region help support business operations across the region

Our diverse multicultural population is another important asset for this country.

Many Australian SMEs are operated by people from non-English speaking backgrounds. They often have skills, personal links and knowledge of business networks in their home countries that can help companies win new markets.

One of the real advantages for Australia of our location in the fastest growing region of the world is that, much earlier than in Europe, we understood the nature of competition from the dynamic new Asian economies. We realised that we needed to compare ourselves and compete not just with our own past performances, or with other mature industrialised economies, but also with the "Tigers" around us.

The second part of *Winning Markets* describes how Australia goes about improving our access to overseas markets and exploiting these more effectively.

Australia has important traditional markets in Europe and the United States and smaller emerging markets in the Indian Ocean region and Latin America.

But Asia remains our main target for export growth. The reason is that, by the year 2000, the East Asian economies will constitute the largest market in the world, surpassing Western Europe and North America.

Last year alone showed how things are changing. Australia's merchandise exports to South-East Asia grew by 12 per cent. South-East Asia now accounts for about 15 per cent of those exports compared with 9 per cent a decade ago. Korea overtook the United States to become our second-largest export market after Japan. And if you add together the markets of China, Hong Kong and Taiwan, the China region is now our third largest trading partner.

Because Australia's trade is diverse we need our trade policy to operate on a wide range of fronts. For example, we need to address the obstacles that face our exporters of agricultural and mineral commodities, of manufactures, our overseas investors and our exporters of skills and ideas. They all have different problems and need different responses

The best way of doing this is undoubtedly through the multilateral trade system of the World Trade Organisation.

Australia alone cannot prise open markets. Even if we had the disposition to do so, we don't have the clout that would enable us to operate unilaterally.

An effective and comprehensive multilateral trade system is our best protection against the worst excesses of the unilateralists, or of inward-looking bilateral or regional arrangements.

One of the goals set out in *Winning Markets* is that of rekindling global enthusiasm for multilateral trade liberalisation. We saw at the recent G7 summit that support for such liberalisation is pretty thin in Europe and the United States.

We hope that by the time of the first meeting of the World Trade Organisation in Singapore next year, Australia can build support for an ambitious agenda that will include the further liberalisation of trade in agriculture (with the help of the Australian chaired Cairns Group), the development of fairer global investment rules and real movement on the liberalisation of trade in services.

This is a sector of great interest to many small and medium businesses. Australia has already successfully shaped the course of global negotiations on telecommunications. And we will be just as active in the negotiations on professional services, where Australian firms, large and small, are increasingly turning to export markets, only to find a bewildering array of barriers.

I am sure that the successful APEC leaders' meeting, which President Clinton chaired in Seattle, did a great deal to bring about the conclusion of the Uruguay Round. I think APEC can also assist in further global trade liberalisation.

Australia has invested a lot in APEC and we will continue to do so. The Asia-Pacific region has the fastest growth in the world - three times that of established industrialised countries.

APEC encompasses a dynamic region that already accounts for more than 40 per cent of the world's population, half of the world's GDP and 46 per cent of its exports.

The enormous achievement of APEC so far has been to reinforce a region-wide trend towards liberalising trade and investment in the Asia-Pacific.

It provides the framework in which regional governments can take the hard decisions on economic deregulation and structural change. Recent deregulation in Indonesia and China, and tariff reductions in Malaysia, indicate the direction Asia is heading. These developments strengthen the region's dynamism and ensure continued high growth rates.

And this process will be strengthened as a result of the historic commitment of APEC leaders at Bogor last year to free trade and investment in the region by 2010 for developed countries and 2020 for developing countries.

APEC may be the most productive manifestation we have yet seen of what used to be called the North/South dialogue.

The commitment to free trade and investment in APEC goes well beyond the liberalisation of tariffs. It will address a host of market access issues that increasingly matter to Australia's traders and investors in the globalised trade environment - services, investment, transfer of technology and intellectual property.

Different standards alone add an estimated 5 to 10 per cent to the costs faced by exporters entering a market for the first time. So APEC's work in areas such as standards, the mutual recognition of testing procedures and the streamlining of customs procedures can offer real gains to business.

It is vital that small business is in a position to take full advantage of the opportunities provided by free trade and investment in APEC. This will be the major theme of the meeting of APEC ministers responsible for small business policy to be held in Adelaide later this year.

With many US business people here, it may be worth noting a fact that seems to receive little attention in the United States: that US exports to East Asia are growing at twice the rate of East Asian exports to the US.

US projections have put Asia, even excluding Japan, as the United States' largest export market by 2010.

So APEC is important to the United States as well as to Australia.

The access Australia achieves to markets through multilateral activities like APEC, the World Trade Organisation and other forums - such as the development of links between the ASEAN Free Trade Agreement and the Australia-New Zealand Closer Economic Relations Agreement - is supported by our bilateral activities with individual governments.

A model of what we can do in this area is found in the many layers of government and commercial cooperation Australia has built up with Indonesia.

It is perfectly true, of course, that only businesses can do business. But sound and creative government-to-government relationships provide a foundation of confidence which is often reassuring to business people.

Another theme of this Government's work bilaterally - and a direction we want to continue to move in - is encouraging the development of alliances and partnerships between Australian and overseas companies. Linkages with other firms, particularly large ones, is a key strategy for SMEs wanting to exploit the opportunities of globalisation.

Examples of what we already have done in this area is the establishment of a fund to examine ways in which Australian and Korean companies with complementary capabilities could capture opportunities in the "information superhighway" which neither can do alone.

Similarly, we have set up a fund to help establish consortia of Australian and Singaporean companies to bid for large projects - to encourage involvement in the expanding Asian infrastructure market.

The third key element of *Winning Markets* involves fostering a trade and investment culture among local business.

Recent studies in Australia have found that a major factor distinguishing those firms that export from those that do not is the presence, or lack of it, of an export culture within the companies.

Such a culture has begun to take root in Australia but it still needs nurturing. Recent studies of Australian manufacturers and service exporters have identified huge untapped export potential in both areas. A relatively small number of firms in these sectors is exporting at present.

The research also showed that the major constraints on the ability of SMEs to operate internationally include difficulties in getting timely information on market opportunities and managing uncertainty and risk.

The Government is already assisting exporters through our export assistance agency, Austrade, and another body - AusIndustry.

AusIndustry works to help businesses commercialise research and development technology, and assist their activities such as product design and quality systems, marketing and networking.

Austrade works to help exporters secure positions in overseas markets.

Following extensive client research by Austrade, Senator McMullan is announcing today a new client service strategy which will mean more and better services for Australian exporters.

Austrade will now provide extensive information and advice free of charge to new and potential exporters. This is a major commitment to the needs of potential exporters among Australian small and medium-sized businesses.

A second group of companies seeking practical assistance to enter and build export markets will receive subsidised services.

A third group, including experienced exporters building on established overseas business, can receive tailored, intensive assistance from Austrade on a cost recovery basis.

As a result of the work done on the *Winning Markets* strategy and the discussions which have been held with business, Senator McMullan is also announcing a number of other decisions which will help Australian exporters and strengthen the trade policy debate in Australia.

Among these initiatives are a parliamentary enquiry into export-related airfreight issues. Over half Australia's non-primary merchandise exports are transported by air. The enquiry will examine Australia's airfreight infrastructure and recommend how services to exporters, particularly of perishable products, can be improved.

To enable the Government to record and follow-up more effectively Australian business concerns about export barriers, an export barriers reporting scheme will come into effect from 1 July 1995 as part of a new unit within the Department of Foreign Affairs and Trade.

To build a stronger export culture in Australia and to link trade research and education more closely with business interests, a Chair and Centre in the Practice of International Trade will be established, with business support, at the Melbourne Business School at the University of Melbourne.

In response to the difficulties experienced by smaller Australian companies in selling their products to some of the more difficult, unfamiliar markets such as Japan, Austrade is examining the feasibility of setting up an Australian enterprise to manage effective distribution for Australian processed and manufactured products in selected markets. The project would draw heavily on private sector involvement and would operate on a fully commercial basis.

Finally, consultations with industry have shown that the cost of market information is an important barrier to the expansion of exports from small and medium-sized enterprises. So a new integrated, electronic exporter and marketing service on the Internet - called the "Australia TradeBlazer" program - will be established by Austrade. In its first stage, it will provide on-line access to relevant export information.

The *Winning Markets* strategy, and the associated announcements which are being made are a further commitment by the Government to ensuring that Australian companies – and our small and medium-sized enterprises especially – will continue to be able to compete with the best in the world's markets.

Governments commonly talk about their "commitments", I know. They talk about them at least as often as small businesses talk about the failure of government to actually deliver.

I suspect our relationship needs a different language: one which reflects the fact that we are engaged in the same project, which is the creation of a dynamic export economy. Perhaps we need to see the relationship as a joint venture and talk more in terms of shared goals and common efforts to which both must deliver.

From the Government's point of view, small and medium sized businesses are an arm of national policy and, notwithstanding the fact that we cannot act for you or give you the ideas and courage you will need to succeed, we will do all we can to make you stronger.

Thank you for having me with you today.

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