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**Minister for Trade**

**Address to Australia China Business Council**

**Perth**

***High-skill, high-wage jobs in an open, competitive  
economy***

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No place in the world better epitomises the bounty to be had from free and open trade than Western Australia.

And no forum better represents the drive, the risk taking and entrepreneurship needed to continue delivering this bounty than the Australia China Business Council.

Western Australians have long been free traders; they instinctively knew their future was bound up in exporting and that they would be disadvantaged by tariffs imposed on imported goods. Tariffs forced up the cost of imported inputs like farm equipment used in producing Western Australian primary commodity exports.

During the great tariff debates of the 1970s and 1980s, Western Australians were at the forefront in advocating free and open trade. In the academic debates, Ross Garnaut, a graduate of Perth Modern, was a free trader, as was another Perth Modern old boy, H C Coombs before him. From early 1983, Garnaut was to find a powerful ally in yet another Perth Modern graduate, the newly elected Prime Minister of Australia, Bob Hawke.

Three Australian Trade Ministers, John Dawkins, Peter Cook and Bob McMullan, played leading roles in global trade liberalisation during the Hawke-Keating era.

John Dawkins established the Cairns Group of agricultural exporting countries in 1986, which was to become a powerful third force – alongside the United States and the European Union – in world trade negotiations, and remains an influential grouping to this day. Born in Victoria,

Senator Peter Cook spent most of his working life in Western Australia and, as Trade Minister in the early 1990s, helped bring the Uruguay Round to a successful conclusion. As Trade Minister from 1994 to 1996, Bob McMullan signed Australia up to the completed Uruguay Round.

And of course, my first boss at the Old Parliament House, Senator Peter Walsh, a Western Australian wheat farmer who fully understood the damage industrial tariffs were doing to Australia's primary industries, was a staunch advocate of free trade, first as Resources and Energy Minister and then as Finance Minister. Peter became friends with another Western Australian farmer, John Hyde, a leader of the Liberal Party's so-called 'Dries' during the period of the Fraser government, who once observed that the Fraser government:

*"... failed to cut stifling regulations, tariffs and licenses that favoured the few at the expense of the many ... But from 1983 onwards, the Hawke government embarked on a period of genuine radical leadership, to an unusual degree taking the public into its confidence".<sup>i</sup>*

Protectionism held sway in Australian public policy making during four-fifths of the last century. Now there are signs at home and abroad that it is making a comeback.

Today I want to make some observations about where protectionism got us when we last embraced it as a nation, the results for Australia from shunning protectionism in favour of free trade and the dangers to Australia and the world of a return to protectionism.

I do so at a crucial point in the decade-long Doha Round of Multilateral Trade Negotiations, and I want to make some remarks about the future of the Round.

### **Did protectionism work for Australia?**

After 80 years of high trade barriers, by the early 1980s Australian manufacturing was on its knees. Serious debate was occurring as to whether Australia would even have a manufacturing sector in the future. A committee to advise on policies for the development of manufacturing industries, whose members included Bob Hawke and Professor Ted Wheelwright (incidentally a lecturer of mine at Sydney University at that time), reported to the federal government in 1975. The Jackson report concluded:

*"The traditional emphasis on the tariff as the principal instrument of industry policy should be reduced ... We are for lower rather than higher tariffs".<sup>ii</sup>*

During the 1981-82 recession, unemployment and inflation both hit double digits and the Australian steel industry was on the verge of collapse. The conventional response to such crises had been to increase tariffs and quantitative restrictions on manufactured imports, a practice pursued by Coalition governments prior to and after the period of the Whitlam Labor government.

But the incoming Hawke government shunned protectionism, beginning instead the transformational task of reorienting the Australian economy from one producing for a small domestic market behind high trade barriers to an open, competitive economy producing for the global market.

Those market-opening policies included floating the currency, liberalising financial markets, reducing industry protection and supporting national competition policy.

They signalled the end of a long period during which business enterprise and jobs were diverted away from Western Australia to highly-protected manufacturing industries in the eastern states.

Australia's transformed open, competitive economy has achieved almost 20 years of strong, recession-free growth, a feat unique among the major advanced countries of the world.

At a time when protectionist sentiments are re-emerging it is worth questioning whether Australia has any regrets from the creation of the open, competitive economy.

Let's consider the market-opening policies in turn.

### **Should we have floated the currency?**

As Trade Minister, the question I am most frequently asked is what am I going to do about the Australian dollar.

The Government is acutely conscious of the impact on Australian exporting and import-competing industries of an Australian dollar that has well and truly surpassed parity with the greenback. It is a classic symptom of what is known as Dutch Disease or the Gregory Effect – where a booming mining sector forces up the exchange rate and draws productive resources away from the non-mining sectors of the economy.

The upward pressure on the Australian dollar, as a commodity currency, is being compounded by the weakness of the US dollar following a period of monetary expansion by the US authorities during and in the aftermath of the global recession.

But the very idea of reverting to a fixed exchange rate would be absurd.

No-one seriously regrets the Hawke government's decision to float the currency.

Trying now to intervene in foreign exchange markets to drive the value of the dollar down would be stupidly self defeating.

### **Should we have liberalised financial markets?**

Hawke government liberalisation of financial markets allowed foreign merchant banks to set up in Australia, removed interest rate caps and relaxed some prudential ratios.

Surely no-one is arguing for a return of regulated interest rates, less competition in commercial lending and less home lending.

No regrets there.

### **Should we have reduced industry protection?**

Reductions in tariffs and the elimination of import quotas have reduced costs for Australia's export industries and prices for Australian consumers.

It is estimated that trade liberalisation has boosted average Australian household incomes by \$3,900 per annum.

A large part of that boost has been in the form of prices for consumers being lower than they otherwise would have been.

The real prices of previously heavily protected products have fallen sharply over the last quarter century, with the prices of boys' footwear falling by 50 per cent, major household appliances by 47 per cent and automobiles by 37 per cent.

In a recent interview I was taken to task for citing the \$3,900 boost per household, with a suggestion that it mainly accrued to BHP and Rio Tinto.

Consumer price reductions don't accrue to BHP, they accrue to consumers.

But sure, proceeds of mining accrue to BHP, Rio, Xstrata, Fortescue Metals and other mining companies.

They pay taxes that are used to increase spending on health, education and age pensions.

And Australian shareholders receive dividends and capital gains from the increase in mining company share prices.

Those shareholders are direct portfolio investors in mining companies and they are Australians who have superannuation accounts, courtesy of the Keating government's 9 per cent superannuation guarantee that the Gillard government is increasing to 12 per cent – against the opposition of the Coalition and leading business organisations.

Superannuation savings of Australians now exceed \$1.3 trillion.

Do we regret these reforms? I don't think so.

### **Should we have introduced national competition policy?**

When the Keating government introduced policies to confront Australia's public utilities and other business enterprises with competition a campaign of fierce resistance was waged.

Public monopolies were forced to be more efficient and, in time, to supply their services at prices lower than they otherwise would have.

Without national competition policy, electricity, gas and water prices would be higher than they are now.

### **No regrets**

In short, with the benefit of hindsight it is difficult to identify as a mistake any of the policies that fashioned Australia's open, competitive economy.

Yet there is no shortage of suggestions about the economic direction Australia should be taking from here onwards.

Just last week it was put to me on radio that Australia shouldn't be importing potatoes or onions – not on quarantine grounds but because we should be producing the potatoes and onions Australians eat right here in Australia.

It was further put to me that, by allowing potatoes and onions to enter Australia, I was picking winners.

As Trade Minister I don't oblige Australian shoppers to buy imported potatoes, onions, peas, fish or anything else; they choose these imported items sometimes and at other times they choose Australian-grown produce.

Let's examine the impacts of banning the importation of potatoes, onions and other foodstuffs.

An import ban would increase consumer prices, forcing up the inflation rate.

A higher inflation rate would oblige the Reserve Bank to increase interest rates, raising mortgage costs, choking off investment and making life harder for Australia's 2.4 million small businesses.

Higher interest rates would make Australia a more favoured destination for money markets, raising the value of the Australian dollar, at least in the short term.

A higher dollar would further penalise Australia's non-mining exporters and businesses competing against imports.

I struggle to see how banning imports or raising their costs through reversing the Hawke-Keating tariff cuts could possibly be in the interests of Australian consumers or Australian businesses.

The basic reason imports can successfully compete against the Australian-made alternative is lower wage rates and much bigger economies of scale.

If banning or otherwise restricting the entry of less expensive imports isn't smart policy, as I have suggested, then the main way the Australian alternative can compete is to drive Australian wages down.

Yet the whole purpose of creating Australia's open, competitive economy has been to fashion a highly-productive, highly-skilled, high-wage economy.

Was this a mistake? Those who argue for keeping out cheap imports from low-wage countries are actually arguing for a low-skill, low-wage Australia.

Which Australian parents want their children to work in businesses directly competing with low-wage countries, consigning them to a race to the bottom?

Is this the future we want for our children?

I don't.

Australia's future is as a high-skill, high-wage country.

Developed countries benefit from international specialisation made possible by trade.

So too do developing countries.

Trade offers their poor farmers an opportunity to grow produce for global markets or move into large-scale factories producing manufactured goods such as clothing and consumer electronics less expensively than they can be produced in high-wage developed countries.

Here's where the Australia China Business Council continues to be so successful.

The Council deeply understands the strength and enormous upside potential of the trade and investment relationship between Australia and China – two complementary economies taking advantage of the opportunities available from specialisation.

The Prime Minister's recent visit to China brought our two countries closer together; the warmth of the relationship was evident from the engagement of the leaders.

During the Prime Minister's visit she witnessed the signing of several memoranda of understanding, among them an agreement to intensify the commercial relationship in services.

This is testament to a broadening of the relationship but there is no doubt that trade and investment in minerals will continue to increase at astonishing rates as the process of industrialisation and urbanisation in China continues to gather pace.

### **The future of the Doha Round**

Having successfully warded off protectionist pressures during the deep global recession of 2008-2009, the major developed and emerging countries have an opportunity through the decade-long Doha Round of Multilateral Trade Negotiations to open their markets further, put an end to agricultural export subsidies and place strict limits on farm subsidies.

Successful completion of the Round in 2011 would especially benefit the poorest countries on earth, giving them better opportunities to produce agricultural produce and low-wage manufactured goods for global markets.

In Australia's view, any attempt to defer negotiations for the Doha Round to 2013 is tantamount to abandoning the Round. By that time the Round would have been running for 12 years with no result. No magic will appear in 2013 that isn't around now and countries will have wearied from an unwillingness of the parties to reach compromise positions.

Seeking a minimalist outcome in 2011 would similarly amount to failure of the Round.

Much is being made of the price major countries are being asked to pay for a successful round in terms of reductions in industry protection, as if protection is a good thing and less of it a bad thing.

But global trade, income and jobs have been boosted immensely by reductions in industry protection through eight rounds of multilateral trade negotiations since the introduction of global trading rules in 1947.

Do the major and emerging countries now regret making these gains? Or do they believe that the world has stumbled onto just the right levels of protection against each other and that further reductions would be against their national interest?

When countries talk of the cost they face in successfully concluding the Doha Round in terms of reductions in their trade barriers, they would do well to contemplate the cost of failing to successfully conclude the Round.

Abandoning the Doha Round, or deferring it so that it can be abandoned later, would unquestionably damage the global trading system.

To pretend otherwise would be disingenuous and self serving.

Having experienced a decade-long lack of commitment to further global trade liberalisation, member countries faced with domestic pressure to protect their industries from overseas competition would be able to do so without having to face international opprobrium.

They would be free to argue that since other countries weren't interested in global trade liberalisation they needn't be either.

Importantly, member countries would be able to increase tariffs without breaching the global trading rules.

The reason is that in most countries there is a difference between the actual tariff rates they currently apply and the ceiling to which they have committed as members of the World Trade Organization.

This difference between applied and bound rates is called the amount of water in the tariff. It can be very large, depending on the country and the product.

One of the main goals of the Doha negotiations is to squeeze out as much of this water as possible.

If the Doha Round were to fail, countries would be at liberty to increase any and all of their tariffs up to the ceiling – or bound rate – without falling foul of the WTO rules.

So countries could legitimately increase any tariff to levels that were agreed almost two decades ago when protectionism was still rife.

If any one country were to succumb to domestic protectionist pressure, others would be pressured by their own industries to retaliate by increasing their tariff rates up towards their bound rates.

How tragic that would be – that the world successfully resisted intense protectionist pressures during the recent deep global recession but succumbed to them during the recovery.

For Australia this would be a very bad outcome.

By retarding the growth of the world economy, global protectionism would damage our export income.

Working Australians employed in our exporting industries would be caught in the crossfire.

The Australian Government's position is clear: we want a successful conclusion to the Doha Round and we want it in 2011.

As a free trading nation – a friend of the system – Australia will do everything possible to bring the Doha Round to a successful conclusion.

Last month Australia sponsored an open letter from 12 other countries also regarded as friends of the system, urging all WTO members to bring the Round to a successful conclusion in 2011.

Australia will not relent.

Australia's economic performance over the past two decades has been the envy of the world.

It is a performance made possible by the creation of Australia's open, competitive economy.

Free and open trade has served Australia well.

Economic reform has served Australia well.

There can be no turning back to the failed policies of the first 80 years of the Australian Federation.

And there can be no turning back to the failed protectionist policies of the pre-War world economy that contributed so heavily to deepening and prolonging the Great Depression.

As Western Australians, you know that.

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<sup>i</sup> Hyde, John (2002), 'The big dry ... our saviour,' *The Australian*, 10 December.

<sup>ii</sup> Gordon Jackson et al (1975), *Policies for the development of manufacturing industry*, Canberra.