



**THE HON DR CRAIG EMERSON MP**  
MINISTER FOR TRADE

## **White Paper on Australia in the Asian Century**

Prime Minister Gillard announced this week the commissioning of a landmark White Paper on *Australia in the Asian Century*, a national blueprint for change. It will drive public debate and public policy development over the next 10 to 15 years as a basis for creating high-skill, high-wage jobs for working Australians and greater prosperity and opportunity for all.

Australia is in the right place at the right time: in the Asian region in the Asian Century. We did not arrive by accident: visionary leadership resulting in early engagement set the platform for our integration into the booming Asian region. Australia's engagement with Asia is an ongoing project. The White Paper will equip us to ensure our trade and economic policy settings are right in a time of astonishing economic transformation within the region and at home.

The White Paper will guide us on how to maximise our opportunities in the Asian Century. Successful engagement with Asia will require a program of continuous economic reform at home as a basis for our trade and broader economic integration into the region.

This paper is a contribution to the White Paper exercise from a trade perspective.

### **An Australian story**

This is a story about Australia taking its place in the Asian region in this, the Asian Century. It is about Australians confidently seeking to be part of a bright but challenging future. It is about a government working with the Australian people to give them a stake in a prosperous, fair and ecologically sustainable future – in the most dynamic region on earth. It is about human progress on a fragile planet.

Gaining a place in the great Asian ascendancy, with all the prosperity, rewarding, high-paying jobs and career opportunities it offers, requires much more than just being there. It demands the active participation of Australian governments in a project of ongoing economic reform, creativity and environmental repair. It involves consigning to history a Great Complacency that beset our country a decade ago and from whose grip we are only now beginning to free ourselves.

In a series of public forums called *Twenty Twenty Vision: Australia's Future* which I convened in the early 1990s with a friend, Fleur Kingham, and hosted by the likes of Bob Hawke, Ross Garnaut, Peter Garrett, Wayne Goss and Rick Farley, we set out a vision for Australia in the year 2020 in these terms:

*A nation that is prosperous, self-confident in the world, able to compete with the best in international markets and to help shape world affairs with the power of ideas; a nation that is comfortable in its mutually beneficial enmeshment with an Asia that will be the dynamic centre of the global economy; a nation imbued with a deep sense of fairness providing opportunity for all; a country of continuing natural splendour, free of the spectre of war.*

Building on the contributions these leading Australians had already made to public life, Bob Hawke spoke of exploiting Australia's proximity to the fastest growing nations on earth, Ross Garnaut of China's economy matching that of the United States by 2020 and an East Asian economy bigger than that of North America and Western Europe combined, and Peter Garrett and Rick Farley of the need for Australian economic development to be ecologically sustainable and for reconciliation with Indigenous Australians. Wayne Goss proposed repairs to the Federation. Malcolm Turnbull championed the ever-elusive Australian Republic.

Today, almost two-thirds of the way along the journey to 2020 Australia, the vision of these leading thinkers retains the same clarity it possessed nearly two decades ago. And now, in 2011, we are better placed to know what remains to be done to make a splendid reality of our shared vision. I want to set out the challenges confronting our country in fulfilling this 2020 vision – confident that as a nation we are up to them – and the nature of the policy responses those challenges require of us.

## **Australia's visionaries preparing for the Asian Century**

Gaining Australia a place in the Asian Century began half-way through the last century when Prime Minister Bob Menzies started the process of commercially engaging a justifiably embittered post-war Australia with its war-time enemy, Japan. Australia then was the first member of the General Agreement on Tariffs and Trade (now the World Trade Organization) to grant most favoured nation treatment to Japan, and in return secured Japan's agreement to reduce tariffs on a multilateral basis for what was then our largest export – wool. Following the 1957 Commerce Agreement, Menzies and Deputy Prime Minister John McEwen removed a ban on iron ore exports and began exporting iron ore and coal to feed Japan's blast furnaces as it made steel for its post-war reconstruction and industrialisation.

Another Liberal Prime Minister, Harold Holt, in 1966 announced the loosening of the White Australia Policy, the shame of our country since federation – in the first of a series of steps towards the non-discriminatory immigration policy introduced by the Whitlam government and confirmed by Malcolm Fraser with the welcoming of large numbers of refugees from Vietnam. Applicants from Asia could then be considered on their merits instead of being barred from migrating to Australia because of the colour of their skin.

By that time Britain had applied to enter the Common Market, severing its preferential trade ties with Australia and other former colonies. No longer could Australia count on its far-away mother country as an export market. Appreciating the significance of this post-colonial shift in economic relationships, another visionary leader, Gough Whitlam, looked north to a

sleeping giant, visiting China as Opposition Leader in 1971 and establishing formal diplomatic ties just days into his Prime Ministership in December 1972.

Yet it was not until 1983, when Bob Hawke foresaw the Asian Century, that Australia truly began the process of locking itself into the region's brilliant future. Along with the discovery of 40,000 years of Aboriginal custodianship of the Australian continent, the early establishment of a democratic constitution and its reflection in commitments to policies and laws that enhanced the security and living standards of ordinary people, and the heroism and sacrifice of Australians in two World Wars, Australia's engagement with Asia could become our country's greatest story.

Hawke understood that Australia could not be part of the Asian Century with its ossified economy built on the crumbling foundations of colonial preferences and insulated from Asia by high import barriers. A century of protection had allowed inefficient, high-cost manufacturers of steel, consumer whitegoods, motor vehicles and textiles, clothing and footwear to survive against Asian competitors, obliging them to scale ever-higher tariff walls to enter Australia. And when Asian imports began appearing at the top of the tariff walls they were repelled by government limits – quotas – on the quantity that could legally enter the country. Effective rates of protection reached 140 per cent for automobiles and 160 per cent for some clothing items.

My personal experience of the effects of these protective policies was played out on the factory floor of a sheet metal-working plant in Sydney's inner-west. Our workforce of generational Australians and ethnic southern Europeans, Egyptians and Lebanese fabricated sheet metal into corrugated roofing iron and panels for whitegoods. So moribund had the factory become that the machines broke down regularly and the workers called a strike about once a fortnight so they could go to the beach and obtain overtime loadings to make up for lost production.

A mate and I broke the factory record for the tonnage produced on a machine in a single shift, for which we were to be awarded a bonus of \$3 each. After our numerous requests, management grudgingly paid us our \$3 six weeks later.

Mostly I was a crane chaser and for one afternoon shift the crane driver arrived drunk. Management asked him to go home on full pay. A stop-work meeting was called and a vote taken on a general strike. Only two of us voted against the strike, me because of my fears about 20 tonnes of sheet metal swaying wildly around my head – it had happened before.

This dysfunctional, grossly inefficient factory barely survived with the protection of high tariff barriers. Three years later it closed. The high tariff walls and import quotas not only couldn't save it, they offered a false sense of security to a combative management and workforce that their indolent behaviour was commercially sustainable.

By 1983 the entire Australian manufacturing sector was on its knees, wracked by inefficiency, high costs and inferior quality, under fierce competitive pressure from rapidly industrialising East Asia – the so-called Asian Tigers.

The incoming Labor government implemented Hawke's 3R's: economic *recovery* from the 1981-82 recession; beginning the process of *reconciliation* between working Australians and employers; and undertaking a fundamental *reconstruction* of the Australian economy.

Hawke, supported by his personal economic adviser, Ross Garnaut (who would later become Australian Ambassador to China and climate change adviser to the Rudd and Gillard governments), developed close personal relationships with the Chinese leadership and the leaders of Japan and other East Asian nations.

Hawke and Treasurer Paul Keating began the difficult but essential process of steering the entire Australian economy away from serving a small, domestic market protected by high trade barriers to an open, competitive economy enmeshed with the Asian region.

The great Hawke-Keating reconstruction effort involved the floating of the currency, deregulation of financial markets and the dismantling of protection. It also required cuts in real wages that had billowed in a centralised wage-fixing system behind ultimately self-defeating trade barriers. This Labor government transformational project gained the cooperation of an equally visionary trade union movement which accepted the necessity of cutting real wages in exchange for improvements in the social wage: universal health insurance through Medicare, more affordable education, income support for low-income families and later, under Keating's Prime Ministership, guaranteed superannuation for working people.

In a second phase of reforms, Keating from the early 1990s privatised inefficient government business enterprises, exposed remaining state-owned enterprises and utilities to competition through national competition policy and further decentralised the industrial relations system through the introduction of enterprise bargaining.

Enmeshment with Asia involved not only domestic economic reform and gaining access to each other's markets, but required deeper economic integration through direct foreign investment. In 1980, investment in Australia by the People's Republic of China was negligible. In July 1987, the government of China committed to invest in the Mt Channar iron ore deposit in Western Australia, the first major mining investment outside China. By 1990, Chinese investment in Australia had grown to \$1.2 billion (in today's dollars). It now stands at \$9.2 billion.

Economic integration with Asia would be advanced through the instigation by Hawke of the Asia Pacific Economic Cooperation (APEC) forum. APEC has proven an effective vehicle for regional trade liberalisation, average tariffs in member economies having fallen from around 16 per cent in 1988 to just over 6 per cent in 2009.

To the west of China, a second giant began stirring from its slumber. Under the guidance of then Finance Minister and now Prime Minister Manmohan Singh, India began its own market-opening transformation in 1991. While it is well known that China's annual economic growth rate averaged more than 10 per cent during the 2000s, less well acknowledged is India's also exceptional growth rate of 7 per cent a year. Both far outpaced the 3 per cent annual growth of the developed world over the same period.

From around the turn of the century a smaller giant began finding its feet on Australia's doorstep. Indonesia, with a population of 235 million, is also opening up its economy, growing at more than 5 per cent per annum during the 2000s.

At a continuation of these growth rates China would double the size of its economy every eight years, India every 11 years and Indonesia every 15 years. The developed world, in contrast, would double its economy every 24 years.

Korea and larger ASEAN countries such as Thailand, Malaysia, Vietnam and the Philippines have resumed strong growth since the recent global recession. And Japan, the world's third-largest economy, is beginning to realise the need for a new growth strategy involving greater economic engagement with the region, reform of its agricultural sector and, possibly in time, an active immigration program to replenish an ageing and shrinking population.

With the global centre of economic gravity shifting towards Asia, the world's emerging and developing economies now hold two-thirds of all official foreign exchange reserves, a reversal of the pattern of a decade ago when the developed world held two-thirds of reserves. By 2025 the emerging and developing world will be a net foreign investor and developed countries net foreign borrowers. A great competition of the 21<sup>st</sup> Century will be among developed countries seeking to attract foreign investment from emerging and developing countries, mainly big Asian economies such as China and India.

In this momentous transformation, China and India are resuming a dominance of the global economy they enjoyed for more than a thousand years before the Industrial Revolution. Now, far from suffering the tyranny of distance from Europe and North America, Australia has the opportunity of proximity to the fast-growing markets on earth.

No country on earth could be better positioned than Australia by visionary Labor and Coalition leaders of the late 20<sup>th</sup> Century to take full advantage of the Asian Century. Poised on Asia's doorstep in the after-dawn of the Asian Century, we must press ahead with reform, freeing ourselves from the Great Complacency that began gripping Australia a decade ago.

## **Australia's four big economic challenges**

Australia's economic performance over the past two decades has been the envy of the developed world. No other major advanced country has achieved 20 years of strong, recession-free economic growth. Alone among major advanced countries Australia avoided the deepest global recession since the Great Depression. Australia gained more than 400,000 jobs during the global recession while more than 11 million jobs were lost in Europe and North America.

Yet this superior economic performance is masking underlying weaknesses in our economy that threaten our future prosperity, our aspiration of a fair society providing opportunity for all and our quest for an ecologically sustainable future. As we move through the second decade of the 21<sup>st</sup> Century, our country is confronted by four big economic challenges. If they are left unattended, Australians will face rapidly rising living costs, rising interest rates and, if they live in some regions of Australia, economic stagnation. And it will be very difficult to achieve the 2020 vision of opportunity for all in a fair society.

Australia's four big economic challenges are:

1. Managing the mining boom;
2. Reducing carbon emissions;

3. Dealing with the ageing of the population; and
4. Revitalising weak productivity growth.

The Gillard government is willing candidly to set out the nature of the four economic challenges confronting our country and to take the hard decisions needed to secure the country's future prosperity and ecological sustainability.

## **Managing the mining boom**

Australia is experiencing its biggest ever mining boom. Spurred by China's voracious appetite for raw materials, world mineral prices have reached their highest sustained levels since records began around 160 years ago.

While the mining boom is most welcome it is creating severe strains on parts of the Australian economy. Mining-related businesses and those servicing them are attracting productive resources such as construction equipment, employees, contractors and management away from non-mining businesses. This is a natural response in an open, competitive economy like Australia's and should not be impeded by interventionist government policy.

Despite this essential movement of resources to mining-related activities and locations, shortages persist and will only become worse as a long and bulging pipeline of new investment flows into our mineral industries. Non-mining businesses seeking to retain their employees and contractors will need to bid for them against extremely profitable mining-related businesses. And since the mining boom is not confined to Australia, overseas bidders have also entered the market for Australian expertise, and the international prices of materials and equipment used in mining-related activities are being bid higher.

An independent, inflation-targeting Reserve Bank, confronted with these price pressures, would be obliged to consider raising interest rates to prevent inflation from rising above its 2-3 per cent band of tolerance. The blunt instrument of interest rates would hurt non-mining businesses and regions of Australia, accentuating our patchwork economy where some regions do well while others struggle.

A further natural economic consequence of a booming mining sector is a rising exchange rate, the Australian dollar having surpassed parity with the greenback in November 2010 for the first time since well before it was floated in 1983. A high Australian dollar has the desirable consequence of putting downward pressure on prices by lowering the cost in Australia of imported goods and services – taking some pressure off the Reserve Bank to lift interest rates. But a high Australian dollar is also damaging our import-competing and export industries, weakening their ability to compete both at home and abroad and to compete for productive resources against booming mining-related industries. While this, too, has an anti-inflationary effect, it is more deeply embedding the patchwork economy.

Yet Australian income from the mining boom, accruing as wages, dividends, capital gains, taxation revenue and income earned by supporting industries, helps spread the benefits of the boom more widely through the economy. This helps explain the apparent conundrum that while mining accounts directly for only 8 per cent of Australia's GDP, many non-mining

industries are still growing strongly as is non-mining employment. Successfully managing the mining boom therefore involves not slowing it but investing more of its proceeds rather than simply consuming them.

## **Reducing carbon emissions**

Europe and the United States gained global economic ascendancy during the 19<sup>th</sup> and 20<sup>th</sup> Centuries through astonishing improvements in productivity made possible by the Industrial Revolution. Mechanisation and specialisation enabled their workforces to produce vastly more per hour worked than their counterparts in Asia, Africa and South America. But the displacement of Asia as the world's economic powerhouse by Europe and the United States came at a cost; the Industrial Revolution, including electricity generation, was powered by fossil fuels. In addition to emitting particulate matter and nitrous and sulphur oxides, the burning of fossil fuels releases carbon dioxide into the earth's atmosphere.

Carbon dioxide is a greenhouse gas, one of the gases that warm the earth's atmosphere. Since 1970 alone, total global greenhouse gas emissions have increased by 70 per cent, with carbon dioxide accounting for more than three-quarters of the rise. By contributing so heavily to temperature-raising increases in greenhouse gas emissions, carbon dioxide released by fossil fuel burning and deforestation is a major contributor to human-induced climate change.

During the 21<sup>st</sup> Century the global economy will undergo its greatest transformation since the Industrial Revolution. Coal-fired energy sources will need to be coupled with cost-effective facilities that capture carbon dioxide wastes and bury them safely or convert them into safe products, or they will be largely or wholly replaced by natural gas and by renewable and nuclear energy supplies in our export markets and in Australia.

To see why, consider the pressure on the environment that economic and population growth in Asia will exert in just the next 25 years. Asia's population is projected to increase to five billion by 2035, adding almost one billion human inhabitants to the region. Land clearing to grow the food for five billion people will damage or destroy ecosystems and carbon sinks while releasing even more carbon dioxide into the atmosphere. Based on existing production processes, China alone could account for almost 60 per cent of the world's growth in carbon dioxide emissions to 2035.

Australia has a comparative advantage in the production of fossil fuels – particularly coal and natural gas – and therefore has more to lose from failing to make the transition smoothly and at the lowest possible cost to a lower-carbon economy. Liquefied natural gas (LNG) is widely considered the primary transition fuel to a lower-carbon economy, emitting only half the carbon per unit of energy produced as good quality coal.

Within Australia, putting a price on carbon will help correct for the adverse environmental effects of fossil-fuel emissions, driving investment in low and zero-emission electricity generation technologies. And energy efficiency will become a commodity in itself, spawning an entire industry creating products that reduce electricity bills for businesses and consumers.

As in the opening up of the Australian economy to competition through reductions in tariff barriers, where gradual change allowed time for adjustment and therefore proved far less traumatic than further delay followed by cathartic action in a crisis, a gradual transition to a

lower-carbon economy would be far less costly than delay followed by an inevitable crisis. Putting a price on carbon now will begin the transition. Refusing to do so would invite an economic crisis later as the world moved while Australia refused to adjust.

## **Dealing with the ageing of the population**

Like the populations of most advanced countries, Australia's population is ageing. At the peak of the Baby Boom in the early 1960s, Australian couples were having an average of 3.5 children. Then they began having fewer and fewer children, sliding to 1.7 children in 2001 before rebounding to 1.9 children in 2009.

At the same time, marvellous life-saving and life-extending medical technologies are enabling more Australians to live longer. Life expectancy for women has increased from 74 in the early 1960s to 84 in 2009 and is projected to rise further to 90 by 2050. For men the figures are 68 in the early 1960s, 80 in 2009 and 88 in 2050. These are the achievements of a successful, prosperous nation. But they, too, present challenges: at present, Australia has around 400,000 people over the age of 85; by 2050 that number could rise to 1.8 million.

Projections contained in Treasury's 2010 *Intergenerational report* suggest that while we now have five working-age Australians for every Australian over the age of 65, by the middle of this century there could be as few as 2.7 working-age Australians earning the incomes and paying the taxes to support those too old or too young to work.

In this ageing population, age pension, health and aged-care costs will rise. Just as the Hawke and Keating governments reformed private markets, present and future Australian governments will need to reform the public provision of social services, ensuring quality care for seniors and strong incentives to contain costs. And it will require the removal of impediments to participation in the workforce by those who are able to work.

Australia has a high overall workforce participation rate by OECD standards, but has above-average rates of underutilisation of labour through underemployment and workers who are only marginally attached to the workforce. Australia has one of the lowest employment rates for single parents and people with disabilities in the OECD and workforce participation by Australians with no post-secondary school qualifications is low, especially among men over the age of 55 and among the indigenous population.

Lifting workforce participation rates involves increasing work incentives while improving the skills of working Australians and the equipment and technology available to them in their workplaces to lift productivity growth.

## **Revitalising weak productivity growth**

Australia would be able to manage the economic challenge of its ageing population without much difficulty if more working-age Australians were in work and if the declining numbers of working-age Australians per older Australian were able to produce more during each hour they worked. That requires increasing workforce participation and lifting Australia's productivity growth rate – not by working harder but by working smarter.

Starved of a new economic reform program, productivity growth, which has contributed 80 per cent of the increase in income per Australian over the last 40 years, began to falter from the early 2000s. While labour productivity had grown by 2.1 per cent a year during the 1990s – built on the Hawke-Keating reform program – it slumped back to 1.3 per cent per annum during the 2000s.

None of this slump in productivity growth is obvious to or even known by the Australian people, masked as it is by the income boost from the mining boom. The previous Coalition government failed to undertake the reforms over 12 years that would maintain our productivity performance. Reversing this decline will not happen overnight and will take a comprehensive effort to make up for these lost years.

As Australian productivity growth slowed, we lost ground against the United States, widely regarded as the country at the productivity frontier. During Australia's productivity boom of the 1990s, Australian productivity levels reached 92 per cent of US levels. But as productivity growth in Australia faltered during the 2000s, Australia's productivity levels slumped back to 84 per cent of US levels, tragically reversing all the gains made during the 1990s and registering Australia's worst performance relative to the United States since the early 1970s.

With the market-opening policies of China, India and other emerging Asian countries now in full swing, these emerging economies are achieving phenomenal productivity growth rates. During the 2000s, when Australia's labour productivity growth rate averaged 1.3 per cent per annum and America's 1.6 per cent per annum, the corresponding estimated productivity growth rates in China were 9.5 per cent, India 4.7 per cent, Vietnam 4.1 per cent, Korea 3.7 per cent and Indonesia 3.1 per cent.

As China, India and Indonesia, in particular, continue to shift rural subsistence populations into cities and towns to work in higher-value manufacturing and service industries, productivity growth rates in those countries may very well continue to far outpace those of advanced countries. That productivity growth in emerging and developing countries has been leaving that of advanced countries in its wake is clearly demonstrated in Figure 1.

**Figure 1: Emerging economies are driving global productivity growth**



Source: The Conference Board Total Economy Database, January 2011.

China and India each have populations four times that of the United States. If at some time in the future their labour productivity and participation levels were to reach those of the United States, their economies would each be four times the size of the US economy. It follows that when their productivity levels were to catch up to just one quarter of those of the United States their economies would each be the size of that of the United States.

## **Rising to the challenge: a modern economic reform program**

Each of Australia's four big economic challenges is serious in its own right. Combined, they are a threat to sustained growth and rising prosperity across our economy and across the continent. They call for new policies to build on those of the last quarter century, a third phase of reforms to lock in prosperity, extend opportunity to all and achieve ecological sustainability.

Laying down the foundation stones of a third-phase reform program has been at the core of the Government's economic strategy from day one, which began moving Australia towards a seamless national economy by reforming business regulation, shifting towards a single, national industrial relations system, preparing a single national school curriculum and streamlining federal payments to the states. Large investments in skills formation and infrastructure helped ease capacity constraints on the economy and a revamp of federal government support for research and development boosted incentives for smaller businesses to innovate.

A more comprehensive third-phase reform program is now needed to relieve the capacity constraints created by the mining boom and urban population growth, begin the transition to a lower-carbon economy, and to increase workforce participation and revive productivity growth.

## **Third-phase reform: nine priorities**

The Government has embarked upon a third phase of economic reform to build on the first and second phases of reform implemented by the Hawke and Keating governments. The third-phase reform program has nine priorities:

1. Fiscal consolidation;
2. Relieving skill shortages and nurturing creative talent;
3. Easing infrastructure constraints;
4. Putting a price on carbon;
5. Creating a seamless national economy;
6. Improving the efficiency of social service provision;
7. National health reform;
8. Revamping trade policy; and
9. Tax reform.

The Labor government has made a start on all of these priorities and achieved solid progress on many of them.

## **Fiscal consolidation**

In the aftermath of a deep global recession a process of fiscal consolidation is necessary to make room for private sector expansion and ease inflationary pressures associated with the mining boom. Australia's government is returning the Budget to surplus. Australian net government debt will peak at 7.2 per cent of GDP, a tiny fraction of the 76 per cent of GDP across the major advanced economies of the world.

## **Relieving skill shortages and nurturing creative talent**

Early investment by the Rudd government in skills formation through the Productivity Places program provided important short-term relief of skill shortages but a comprehensive investment and reform program is needed to tackle Australia's ongoing skill shortages and to ensure we have the creative talent to take full advantage of the Asian Century.

The 2011-12 Budget provides for a comprehensive skills-creation program including reform of the vocational education system to make it more responsive to the needs of different industries. The Budget also adopted measures designed to lift workforce participation by improving work incentives and strengthening obligations to seek work. And the Government has reformed and boosted funding for Australia's universities, giving them greater say in the

courses they offer and removing limits on the number of publicly-supported university places they can offer. These reforms encourage universities to specialise, increasing the diversity of offerings for undergraduates and graduates.

Australia's sparkling future in the Asian Century will require higher levels of temporary and permanent immigration as shortages of skills and general labour choke off the country's capacity to expand its exports and domestic economy. Upon the release of Treasury's third *Intergenerational report* in early January 2010, both Labor and the Coalition commented benignly to positively on Treasury's projections, based on historical immigration rates of 180,000 a year, that Australia's population could reach 36 million people by 2050. Indeed, just before Australia Day 2010, Opposition Leader Tony Abbott remarked:

*"Now, I've got no problems with increasing Australia's population."*<sup>1</sup>

Subsequently, the Opposition changed its position, promising to slash Australia's immigration intake:

*"Immigration at this rate is just not sustainable. So the Coalition will reduce net overseas migration to 170,000 a year within our first term."*<sup>2</sup>

This new Coalition immigration intake of 170,000 a year compares with 244,000 in the last year of the Howard government, a profession of belief by the Abbott-led Coalition that the Howard government's immigration intake was too large.

In the lead-up to the 2010 election, Prime Minister Gillard advocated a sustainable Australia in which pressure would be taken off the major cities and population growth would be facilitated in regional areas experiencing labour and skill shortages. Prime Minister Gillard has not argued for an immigration program smaller than the recent historical levels of 180,000 per annum.

In the 2011-12 Budget the government announced a 16,000 increase in the previous year's immigration intake. The increase will be directed to the regions, complemented by regional migration agreements for communities with skill shortages. Further, the government has offered Enterprise Migration Agreements for large resource projects to ease the skill and labour shortages in the resources sector.

If Australia's 2020 vision is to be realised, a rational debate about immigration levels will need to occur. But it cannot occur if the Coalition remains committed to a low-immigration policy. The Gillard government has accepted all 31 recommendations of its recent inquiry by the National Resources Sector Employment Taskforce. This is a good start to a broader national debate about the appropriate intake of temporary and permanent migrants.

## **Easing infrastructure constraints**

In formulating policies to relieve infrastructure blockages it is necessary to distinguish between minerals-related export infrastructure and non-mining infrastructure. Some minerals and energy developments lend themselves to dedicated, single-user infrastructure funded and

---

<sup>1</sup> Tony Abbott interview with Madonna King on ABC Radio on 25 January 2010

<sup>2</sup> Tony Abbott Doorstop, 25 July 2010

owned by the resource operator. Increasingly, however, the ownership by different companies of different leases within a mining or energy province is calling for the provision of common-use infrastructure, which might be owned by a consortium of resource companies or by a third party. We should always be on the lookout for opportunities for some transport infrastructure for the mining industry to provide services at moderate cost for other sectors of the Australian economy.

Federal and state governments will not be in a financial position to fund the bulk of this very expensive infrastructure. It will therefore be important that the right incentives and regulations are put in place to optimise private investment in export infrastructure, ensuring infrastructure blockages are relieved while avoiding wasteful overinvestment in duplicated infrastructure assets.

Beyond mineral-related export infrastructure, a national ports strategy and a national freight strategy are needed to increase the competitiveness of Australia's non-mining exports and to reduce the cost of imported consumer goods and inputs into Australian industries. Both strategies are in the early stages of development by the Gillard government.

Australia's urban transport infrastructure is inadequate in a number of capital cities, especially Sydney. Comprehensive traffic management planning, combined with planning for urban consolidation, are essential to relieving congestion, itself an important cause of poor productivity growth.

The 2011-12 Budget improves tax incentives for private investment in infrastructure, making it easier to claim tax losses while preserving their value by allowing them to be carried forward with interest.

The National Broadband Network will provide super-fast fibre optic cable to most Australian households and businesses. It will be an enormously powerful technology, enabling productivity-enhancing rapid downloading of complex programs and documents and teleconferencing facilities for businesses in regional Australia. It will improve the quality and timeliness of health care and of education, especially for regional and remote communities.

## **Putting a price on carbon**

Putting a price on carbon will not only help make the transition to a lower-carbon economy, it will help insulate Australia from any future retaliatory action by Australia's trading partners against carbon-intensive imports from countries that have refused to price carbon. As countries increasingly move to incentives to reduce the domestic carbon intensity of their production processes, they are likely to introduce penalties on carbon-embedded imports from competitors that do not take similar action so as to avoid placing their domestic industries at a significant competitive disadvantage on this account. Depending on their design features, these so-called border tax adjustments and possibly more hidden measures can be consistent with the World Trade Organization's rules.

The Gillard government has announced an emissions trading scheme starting with a fixed price permit for three years followed by a price set in the market. From the time of the floating price the scheme will be linked to international carbon markets, enabling the lowest-cost opportunities for reducing carbon emissions both in Australia and overseas to be utilised.

## **Creating a seamless national economy**

In many areas of government regulation Australia has not a single market but up to eight state and territory markets. The Government has embarked on a program of reducing and harmonising business regulation across the states and territories, reducing the regulatory burden on business and allowing for increased business productivity.

Of the 27 areas of business regulation identified for reform, 13 have been completed and the full program is expected to be completed by the end of 2012, ahead of schedule.

The Government will continue to work with the business community in identifying and reforming further areas of business regulation and in pursuing competition policy reforms to ensure that Australia's open, competitive economy remains open and competitive.

## **Improving the efficiency of social service provision**

Most of the productivity-raising reforms of the last quarter century have been directed at greater competition in private markets and public utilities. Yet more than one-third of Australia's gross domestic product is generated in the public sector. Any attempt to improve the performance of the economy without also addressing the delivery of public services would therefore be far from comprehensive.

Traditionally, there have been two camps in the debate over how most effectively to deliver services such as healthcare and education. There have been those who call for privatisation and liberalisation at all costs and there are those opposed to any market or competition in these essential services. Both these approaches are motivated more by ideology than pragmatic analysis and neither will deliver the flexible, efficient and quality service delivery Australians deserve.

A better approach is based on a proper understanding of each sector, looking at the needs it must serve, and then methodically working to create the conditions in which markets serve the public interest.

This process is well underway. The introduction of the My Schools website and the future My University and My Hospital websites will provide valuable information to the public about their local services. This transparency will create strong incentives for quality improvements in health and education services.

The ongoing challenge the Government must address in reforming service delivery is not a simplistic choice between the market and the state, but the more sophisticated challenge of market design so that we bring public and private resources together to deliver better services and increased productivity.

## **National health reform**

With an ageing population, the cost of financing health care has been growing strongly and would have consumed state health budgets within the foreseeable future. That's why the

Gillard government has delivered national reform to the public financing of Australia's health system, with unprecedented levels of transparency and accountability, less waste and significantly less waiting for patients.

The Commonwealth will pay 45 cents in every new dollar of the hospital system in 2014 and then permanently move to 50 cents in every new dollar. This will fund the growth in our hospital system and place it on sustainable footing.

A national efficient price will be introduced for hospital services so that hospitals are funded for the services they actually deliver rather than based on an assessment of what they spent the previous year.

A new national funding pool will be established so that all public hospital funding will be paid on a uniform, transparent and accountable basis to Local Hospital Networks across the country rather than to state bureaucracies.

## **Revamping trade policy**

The Gillard government has released a trade policy that reconnects with the Hawke-Keating era of trade policy and economic reform. Chief among the policy's guiding principles is the indivisibility of trade policy and economic reform: the best trade policy is domestic economic reform, since economic reform increases productivity and trade competitiveness.

The policy gives primacy to multilateral trade negotiations and the multilateral rules-based system through the World Trade Organization. Australia has developed an enviable reputation internationally as a friend of the system and will use that influence wherever it can to advance the cause of multilateral trade liberalisation.

The Gillard government's commitment to free trade extends to negotiating bilateral and regional agreements on a non-discriminatory basis. In negotiations, Australia does not seek preferential access to markets, just an opportunity to compete on terms no less favourable than those granted any other country.

Australia's trade promotion activities, through Austrade, are being refocused towards emerging and frontier markets, where the transactions costs for individual businesses can be so high as to be prohibitive but where commercial opportunities can be very large.

## **Tax reform**

Tax reform can lift workforce participation and productivity. The Government has reinvigorated the tax reform agenda through a wide-ranging review, out of which the Government is introducing a profits-based mining tax, reducing the company tax rate, providing small business tax relief and simplifying personal income tax returns.

In association with the introduction of a price on carbon, the Government is trebling the tax-free threshold from \$6,000 to \$18,200, with a further increase to occur in 2015. This reform will increase work incentives for casuals and part-time workers and take one million Australians out of the tax system.

Next week Treasurer Wayne Swan will host a tax forum to be attended by business leaders, community groups, academics and unions. The forum will focus on issues surrounding personal tax, transfer payments, business tax, state taxes, environmental and social taxes, and system governance and will help prioritise the Government's agenda for further tax reform.

Unfortunately, debate in the business community about tax reform has descended into demands for cuts in all forms of business taxation, to be funded by either cuts in government spending other than on business or increases in the GST rate. Advocacy of reduced services and higher taxes on individuals to pay for tax cuts for corporations does not amount to tax reform. Business organisations recognised this in the 1985 Tax Summit that led to repairs in the income tax base to fund reductions in the rates of personal and company taxation.

## **Widening the 2020 vision**

The complementarity between an Australia rich in minerals and energy and an industrialising and urbanising Asia in need of these raw materials created the original vision of Australia enmeshed with Asia in the 21<sup>st</sup> Century. During the periods of the Hawke, Keating, Howard and Rudd governments the commercial relationship between Australia and Asia has been expanded to include the service economy. In 2010, China became Australia's largest service industry export market, surpassing the United States.

China's 12<sup>th</sup> five-year plan places heavy weight on lifting services as a share of the Chinese economy as it devotes greater effort to consumption relative to exports as a source of growth, spreading the benefits of growth more evenly across the country. The Gillard government is working closely with the Chinese government on promoting trade and investment in services, including education, tourism, financial, logistics and environmental services.

A new force is set to widen Australia's economic engagement with Asia even further. As one billion extra people inhabit the region by 2035 and the proportion of Asia's population living in urban areas increases from 42 per cent to 55 per cent, the demand for protein-rich food is set to soar. Of the various animal protein sources, fish, poultry and pork are likely to be sourced mainly from within Asia. But Australia could become a major supplier of beef, sheep meat and dairy products. Beef can be grown on rangelands or in feedlots. Asia lacks extensive rangelands, and feedlots require large amounts of grain which will be wanted for consumption by a much larger human population.

Just as Australia has met Asia's mineral and energy resource security needs over the last quarter century, Australia can meet Asia's food resource security needs over the coming quarter century.

Australia's rangelands could be deployed in meeting Asia's demand for beef, in competition with countries such as Brazil, Uruguay and Argentina. Asian investment in Australian water catchment infrastructure and abattoirs would increase productivity, add value in Australia and reduce transport costs. Similarly, sheep meat and processed dairy products such as powdered milk and infant formula could be reliably sourced from Australia and New Zealand.

Food security arrangements could be included in trade deals between Australia and relevant Asian trading partners. But a regional approach to food security might be even more effective. Regionalism in food security would encourage specialisation, trade and technical cooperation, with the aim of maximising the productivity of agriculture in the region and

minimising adverse environmental impacts. A truly regional approach to food security might best be pursued through regional forums such as the Asia Pacific Economic Cooperation forum and the East Asian Summit.

What role can Australian manufacturing play in this widened 2020 vision? Large-scale manufacturing relying on relative low labour costs is becoming commoditised and is shifting to countries of Asia. Australia will not have a comparative advantage in large-scale, low-wage manufacturing. But Australia can have an advantage in specialised manufacturing embodying high levels of skills and innovation. The future of manufacturing in Australia will be in high-skill, high-wage manufacturing producing specialised products which themselves are likely to be inputs into other manufacturing processes.

## **A plan of policy action**

Putting Australia in the right place at the right time – in the Asian region in the Asian Century – requires a comprehensive, coordinated plan of action. The plan involves a third phase of economic reform, building on the big reforms of the Hawke and Keating years, designed to increase prosperity and create rewarding jobs. And it involves widening the vision of Australia in the first quarter of the 21<sup>st</sup> Century to include Australia as a reliable supplier in meeting not only Asia's mineral and energy resource security needs but Asia's food security and services needs as well.

Much of the domestic reform called for is well underway. So too is the revamping of Australia's trade policy settings. Australia's White Paper on Australia in the Asian Century will form the blueprint for driving this agenda forward.