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**THE FUTURE FOR TRANS-TASMAN
COMMERCIAL RELATIONS**

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THE FUTURE FOR TRANS-TASMAN COMMERCIAL RELATIONS

I am pleased to be speaking in the trans-Tasman section of this conference as a businessman who has substantial and growing commercial links in both countries. However, at the outset I want to emphasise that we will completely miss the point if we merely focus on trans-Tasman issues, to the exclusion of the wider perspective.

The trans-Tasman relationship has deepened considerably in recent years. On his recent and welcome visit to New Zealand, Prime Minister Keating reminded us that, in the decade since the closer economic relations agreement was signed, trans-Tasman trade has tripled and the total value of investment between our two countries has increased nine fold.

Mr Keating also remarked on the wider changes affecting Australia and New Zealand. He noted that both countries learned in the 1980s that there was no choice but to radically change our financial and industrial culture, to reorient ourselves to Asia and the Pacific, and to open ourselves to the world at large. The key decisions in both cases were to progressively remove import barriers, abolish capital controls and float the currency so that economic decisions were increasingly governed by world prices. Our economic survival depended on our willingness and capacity to do those things.

The politicians on both sides of the Tasman responsible for these changes deserve credit for their foresight and leadership, and the communities in both countries can take pride and satisfaction from what has been achieved. Both are now seeing the rewards. But Mr Keating rightly warned that we are not doing as well as we need to, and that more must be done to tackle problems such as unemployment and to meet the challenges of the outside world.

We should never forget that our two countries have been among the world's poorer performers over the past three decades. We have fallen a long way from our ranking earlier this century as countries which enjoyed living standards which were among the world's highest. Our need for reform is correspondingly greater and more urgent if we wish to avoid

continual drift. There are no grounds for complacency about what has been achieved so far.

In many respects, both countries have merely scratched the surface. There is a constant risk - especially as elections loom or perseverance wilts - that governments will think that it is time for a teabreak or that the task is complete. Neither is the case. As Stan Wallis, Managing Director of Amcor, recently put it:

"All the issues that need to be addressed have been talked about, but we are having difficulty getting on with them."

He blamed both industry and government for "flagging in their efforts over the last few stages of restructuring".

The point is that trans-Tasman comparisons are fine as far as they go, but the real test is with countries beyond our shores. Many such countries - particularly the high growth Asian economies as opposed to most of the OECD - are continuing to perform impressively in the never-ending competitiveness race. They are not seeking competitiveness for its own sake, but to improve the lives of their people. Most have never had a welfare mentality nor believed that the world owes them a living. The idea that governments, rather than industrial productivity, can underwrite living standards is totally foreign to them. Our task is harder than theirs, because we have to make up for lost ground and time, and then match or surpass the best performers in the future.

The changes needed are partly attitudinal. Changing past mindsets is an enormous challenge - for governments, managements and the community at large. It requires eliminating the legacy of decades of false ideologies and mutual suspicions, of a culture of welfare and protectionism rather than work and enterprise. We are seeing progress, but it remains the hardest task that lies ahead.

This point was brought home to me recently in an article documenting the achievements of a leading economic reformer.

"The process of change is now irreversible", he said, "but the battle for the people's minds in the transition to a free market is still to be won. ... The main obstacle to change was a mindset that governments had some magic formula to remove poverty"

The reform programme in question was being carried out against a background of tight economic controls and protectionism that had bred vested interests. Some people had flourished in the old system. Controlled regimes helped certain groups of politicians, bureaucrats, unionists and protected industrialists. Economic policy had been turned on its head, to socialist cries that the nation had been sold out to global lenders. The biggest problem was restructuring the public sector and reforming labour laws. Nevertheless, the upshot was probably one of the smoothest adjustment-cum-structural reform programmes taking place around the world.

The subject of the article was not former Treasurer Keating or Finance Minister Roger Douglas. It was India's Minister of Finance Manmohan Singh, who beat our Ruth Richardson into second place in *Euromoney* magazine's award for the finance minister of the year. We can, at least, take some consolation from the fact that *Euromoney* awarded her National Party predecessor, Sir Robert Muldoon, the wooden spoon for economic management.

Recently *The Economist* carried a survey of future scenarios by leading international authorities. One was by Lee Kuan Yew, whose opinions on Asian developments surely demand enormous respect. He predicts a complete deregulation of the Indian economy and a flow of foreign investment which will sustain growth at 4 percent a year for the next two decades. In Lee's opinion, Pakistan will go free-market sooner than India, but less successfully. He is not starry eyed about China because of its huge, unwieldy bureaucracy, weak constitutional framework, poor infrastructure and backward agriculture. Nevertheless, he sees it growing at 5 percent a year and matching America's gross national product by 2025. Japan's per capita income, meanwhile, has overtaken America's by that year in his scenario.

This, in all probability, is the kind of world that Australia and New Zealand will have to come to terms with. The spread of market economics in much of the Third World is an under-appreciated trend, with implications for the coming decades at least as important as the revolutions in Eastern Europe. By comparison with these profound influences on our future affairs, too

much of the public and political debate in both our countries still falls into the category of trivial pursuits.

I sense, for example, that there has been something of a role reversal in the approaches of Australia and New Zealand to CER. Ten years ago New Zealand was the country which was niggly and tentative in its attitude to the agreement. Now it wants to see the job finished. Australia, on the other hand, seems to have caught the earlier New Zealand disease. Tentative and protective attitudes have developed, not just on things like rules of origin and shearers but also on bigger issues like trans-Tasman shipping, airline deregulation, tax reform, services and investment.

Part of the problem, I suspect, is that a lot of Australian firms have been under pressure and the improved competitiveness of New Zealand has been seen as an additional threat. But it is pointless for Australia to see New Zealand in this light given the need for it to compete in the world beyond. It is equally pointless for New Zealand firms to take satisfaction from gaining a greater share of a relatively static Australian market. Most New Zealand firms know they would be better off selling into a strong, competitive, growing Australian economy. And since the rest of the world has trouble differentiating between us in making investment decisions, it is bad for both of us if attitudes and policies turn defensive.

Neither country should under-estimate the risks of setbacks despite a decade of important reforms. Struggling economies and high levels of unemployment may generate precisely the wrong political reactions. The Australian historian Professor Geoffrey Blainey has recently forecast a return of high inflation and protectionism in Australia in the next 10 years. The problems of debt and an over-expanded welfare state could still bring down the New Zealand economy.

Many New Zealanders think we have gone further in reforming our economy than Australia, but that judgment is overstated. New Zealand started from a much more distorted and debt-ridden position. Our tariffs are still higher than yours and coming down more slowly, and our public debt is much higher. Your welfare system is more tightly structured and less expensive than ours (particularly in the case of pensions), and you have done more to free up agricultural marketing. New Zealand's outlook is for only modest rates of growth of 2.5 - 3 percent a year. Australia's outlook is

at least as good - or as mediocre. And if we do not keep moving forward we shall rapidly start to drift backwards.

With so much at stake, why do we pussyfoot around on issues like trans-Tasman shipping, for example, which most people regard as a piece of protectionism that should have gone years ago? It is pleasing that the so-called maritime 'accord' is now breaking down, with more and more voyages being undertaken by third country shipping operators, to the benefit of shippers and final consumers alike. A study undertaken last year estimated the benefits of liberalisation at over NZ\$50 million for each country, with the current excess costs to the community amounting to around \$120,000 for every trans-Tasman seafarer. But these gains are being achieved furtively, almost secretively, with seafaring unions being asked to give their consent on a case-by-case basis. Why don't parties on all sides simply recognise that the game is up and allow people to get on with their business unimpeded?

At a broader level, Australia and New Zealand have moved painfully slowly over the last decade to reform their outdated labour market structures, and have suffered needless unemployment in the process. The New Zealand reforms are now making a major contribution to competitiveness and job creation.

Employment is growing at around 1.5 - 2 percent a year and the unemployment rate of just under 10 percent of the labour force is 2 percentage points below the government's own forecast 2 years ago and 3 - 4 percentage points below some of the higher projections at that time. Even unionists concede the reforms have saved jobs we would otherwise have lost. The fearmongering about the effects of the reforms has not been borne out, and polling results indicate that the vast majority of employees are satisfied or highly satisfied with their contracts. There is a widespread realisation that the reality of the economic upturn owes much to the 1991 changes. No one wants to return to the former conflict-ridden era, and a massive change in attitudes is now becoming locked into New Zealand workplaces.

New Zealand companies like my own operating in Australia have been seeking similar improvements in workplace practices by doing away with union rorts and management incompetence which frustrate productivity

and competitiveness. Particularly in South Australia, we have had a positive response with staff and unions recognising the reality that taking the soft options would simply mean that plants would not be viable and would be closed down. Only world class standards offer security in business or employment today; anything else means insecurity.

A recent *Business Review Weekly* article reported the experience of another New Zealand firm, Ceramco, which was proposing to close its Australian factory. It invited shopfloor workers and union delegates to New Zealand and gave them a free run to examine its employment arrangements. "The reaction was one of amazement," according to the chief executive. "It took away the bogey." The article continued:

"The key was demonstrating to the workforce that what the company wanted to do was to their benefit. ... With bonuses for skill, all workers (in the company's operations in) New Zealand earn more than they did under the award, and some workers ... are \$100 a week better off."

As a result of similar improvements in Australia, the company has brought some of its production back from China. In some other situations, progress has been harder to achieve and, as in New Zealand before the reforms, has required a massive and costly management commitment to bring about essential changes. Again the question must be asked: Why do our countries persist with policies that put so much lead in our saddlebags long after their damaging effects have been exposed? The answer can only be that too many people remain isolated by protective barriers from the reality of what consumers are demanding and producers are achieving in a world that has changed beyond recognition since our fortress era.

An important contribution to the Australian wages policy debate has been the Industry Commission's recent draft report on 'Impediments to Regional Industry Adjustment'. While it has been greeted with howls of outrage from some predictable quarters, it does seem to me to strike some pretty sensible notes. Unlike some other contributors to the debate, the Industry Commission has been prepared to confront fundamental issues. For example, it said:

"Relative costs of employing labour have an important influence on the competitiveness of firms in different regions and on their ability to generate jobs for regional workforces. Unit labour costs are determined by wages, 'on costs' and productivity, which in

turn is affected by work and management practices. Despite some increased (upward) flexibility in recent times, the influences on unit labour costs remain constrained by a myriad of centrally determined 'awards', most of which are oblivious to the special conditions and needs of workplaces in different regions across Australia.

"Removal of the institutional impediments to greater flexibility in work practices and conditions across regions would allow regional workplaces to agree on working conditions that fit their needs, thereby enhancing regional productivity. Moreover, increased scope for wage outcomes to differ between regions over time would allow regions experiencing lower growth, or adverse shocks, to maintain competitiveness and employment. It would thus facilitate regional adjustment and help narrow disparities in regional unemployment and economic performance."

The *Financial Review* editorialised that these comments are "basically commonsense", and that the report "reinforces powerfully the *Financial Review's* anxiety about the negative impact of centrally fixed awards and of the monopoly rights of unions."

In the interests of competitiveness and growth, I see it as essential that Australia and New Zealand rapidly put behind us the remnants of our century-long tradition of protectionism and labour market regulation. We need to press on with the removal of all unjustifiable barriers to both imports and exports and create a truly open economic area. After all, what is the alternative? Does anyone seriously contend that the task of achieving structural reforms or reducing debt will be easier in 5 years' time, or that it will do us any good to allow new capital and labour to go into industries that can't meet open international competition?

In Australia, most import competing industries are seeing protection phase down to minimal levels. In New Zealand, most tariffs will be down to about 12 percent or less by 1996, and there will be a further tariff review next year. I suggested to a recent manufacturing industry gathering that the next move should be to full free trade with the rest of the world. Australia is already heading in that direction, and New Zealand really has no choice but to do the same. It was an indication of the extent to which thinking has shifted in New Zealand that there was not one dissenting voice. Ten years ago I would have come out tarred and feathered, if at all. Two years ago the idea would only have been entertained if the government was somehow prepared to manipulate the exchange rate down to about half its present

level. All the attention is now rightly focused on the need to achieve the further improvements in productivity and efficiency which will enable us to compete openly with the world's best at home and abroad.

Paradoxically, given the stance of rural industries in both our countries against protectionism, there is rather more work to be done to remove export barriers. Most of New Zealand's major agricultural products are subject to monopoly export restrictions or regulations which interfere with normal commercial arrangements. The cooperative structures which prevail in the industries create additional distortions to price signals and resource use. Similar findings with respect to Australia were reached in the recent Hilmer inquiry into national competition policy. In the words of the report:

"Agricultural marketing in Australia has long been dominated by statutory schemes of various forms, with rationales including price support to growers, price stabilisation, and the provision of countervailing power to producers. ... Arrangements of this kind are grossly inefficient Benefits of reform include lower prices for consumers and improved prospects for developing internationally - competitive food processing industries."

The report also quoted Philip Brass, the chief executive of one of Australia's major food processors, as saying that only about 20 percent of Australia's growers were as competitive as their offshore counterparts, with the remainder falling behind in large part due to the operation of statutory marketing arrangements. The potential of what should be an enormous opportunity to add value to raw materials is being dissipated by our attachment to confining all ideas for innovation and competition to tightly regulated channels.

The Hilmer report recommended the repeal of exemptions of agricultural marketing arrangements from competition law and the removal of all regulatory restrictions on export competition that cannot be justified as being in the public interest. Predictably, according to the *Financial Review*,

"Australian farming organisations have rejected out of hand the Hilmer report's conclusion that all agricultural marketing boards should be phased out, saying those arrangements are still vital."

It would appear that in both countries this item is now on the agenda as the last bastion of Australasian protectionism. It is more important for New

Zealand than Australia because a much higher proportion of our exports is affected and Australia has already gone further down the reform path. In New Zealand, a bipartisan consensus appears to be developing on the subject. In the event of a change of government this year, deregulation is likely to occur quickly. If the current government is returned, the speed of change may be slower but the end result is likely to be much the same.

If we press on to create economies which are open to the world, most of the current sources of frustration in trans-Tasman trade will become irrelevant. Areas of friction such as intermediate goods, rules of origin, used car imports and the disruption of Australian markets by the monopoly New Zealand kiwifruit seller will dissolve of their own accord. We must keep our eyes firmly fastened on what our two prime ministers have described as the "main game" of integration into the Asia-Pacific region. In Lee Kuan Yew's scenario, the United States opens NAFTA, the North American Free Trade Agreement, to APEC members in the year 2000 to form PAFTA, the Pacific-Asia Free Trade Area. We should stay firmly committed to the multilateral trading system but also ready ourselves for that exciting, GATT - plus, prospect.

A recent letter to *The Economist* by the Director General of the UK Institute of Directors contained a message that is highly relevant to business representatives in Australia and New Zealand. He said that:

"It is the role of 'mavericks' to extend the boundaries of debate and ensure that the unthinkable becomes not only thinkable but policy."

After reminding readers of previous 'unthinkable' policies such as telephone, gas, electricity and water privatisations, and trade unions operating within the law, he listed a further agenda of reform measures including, crucially, the need for public spending to be cut.

Down under, such an agenda must replace the current attachment to trivial pursuits if our countries are genuinely to prosper. It is disappointing, for example, that in the current election campaign in New Zealand the news media have devoted enormous effort to scrutinising the *additional* spending commitments of political parties but almost none to probing them on how they will tackle the need to *reduce* spending, deficits and debt. The

business community must do more to insist that debate is focused on the right issues, and to help politicians think the unthinkable.

The reality is that politicians cannot lead change on their own. In both our countries, politicians have had to reckon with electorates which could see the social results of declining performance but did not understand the causes. At least in the case of New Zealand, elements in the business and farming communities finally woke up to the fact that New Zealand was spiralling downwards and were prepared to speak out in support of change. To the extent that New Zealand is now further ahead than Australia, I believe that support made a difference. The chairman of the Industry Commission, Bill Scales, recently called on Australian business leaders to speak up more often for change, noting that the losers from reform - that is, the protected interests - are never short of voice. Sooner or later, others will come round, especially when the benefits of change start to become apparent. Polls show that a majority of New Zealanders now think the country is going in the right direction.

If business leaders do not play such a role, and if the constituency for ongoing reform is lacking, we will be taking great risks with our future. Voting for the easy life will deliver us the opposite. Countries like Canada, Sweden and Germany, where labour costs and welfare arrangements have become detached from reality, are now under enormous pressure and will be lucky to escape a New Zealand-style economic crisis in the next few years. Why take risks with high debt and high unemployment when the problems have to be confronted sooner or later? Procrastination will only exacerbate social tensions. Australia and New Zealand are still well off the pace. We must curb any complacent tendencies, put more distance between ourselves and the precipice, and build a foundation for genuine economic security.

As part of this process, we must check and reverse any tendency for CER to drift and encourage both our governments to restore its original, outward-looking spirit. Nothing will rescue our economies but fundamental ongoing reform and hard graft. It would be a tragedy if windfall events like Sydney's magnificent achievement in securing the Olympic games in the year 2000 diverted us from this fundamental task. Spain's economic problems, one year after the Barcelona games and after more than a decade of bold, successful but unfinished reforms, should serve as a salutary

warning in this regard. There is no way a country can 'luck in' to prosperity, or stay on course without continuing effort.

Equally, there is no need for New Zealand and Australia to accept a continuing slide in our fortunes, to meet the Third World on the way up, and to become just an economic province of Asia. What a triumph it would be if, by the time of the Olympics, our countries had shed the baggage and sclerosis of the past and taken their place as tiger economies in the Asia-Pacific region. That is surely a vision worthy of the original intentions of the closer economic relations agreement, and one which our two business communities should do their utmost to bring about.