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**'Is 'behind-the-border' economic reform
enhancing the global competitiveness of
Australia and Japan?'**

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INTRODUCTION

Thank you Mr Adler and Mr Imai.

Your Excellencies Ambassadors Takaaki Kojima and Murray McLean.

My fellow speaker in this session, Mr. Yorihiko Kojima, Vice Chairman Japan-Australia Business Co-operation Committee and President and CEO of the Board of Mitsubishi.

Panellists in this session, Geoff Brennan, Michitaka Nakatomi, Tim Lester and Hidenori Hono.

Distinguished business leaders, delegates, ladies and gentlemen.

I commence by conveying a very warm welcome on behalf of Australia's peak business council, the Australian Chamber of Commerce and Industry.

I especially welcome the approximately 150 guests from Japan and the Asian region who are joining our Australian colleagues at this 46th Australia-Japan Joint Business Conference.

I also welcome you to my home State of Western Australia and its capital city Perth. I trust our hospitality is in the true Western Australian tradition of friendliness and efficiency.

At ACCI we have enjoyed a long and extremely strong relationship with the Australia Japan Business Co-operation Committee that stretches back to the foundation of the AJBCC.

A sign of the strength of our relationship was our very successful recent involvement in the Future Business Counterparts from Australia programme, and we were very grateful for the Government of Japan's invitation to 50 young business professional from Australia to go to Japan to investigate how business is done in Japan. The ACCI thanks the Japan and Tokyo Chambers of Commerce and Industry and their members for planning and hospitality to Australia's future business leaders.

I am very pleased that our conference is focussing directly on change and economic reform in our countries.

GLOBAL CONDITIONS

We see fast changing global economic and financial conditions. Our economies are globalised, our communities gain much from globalisation and open markets. Thus, our economies face the opportunities and challenges that arise from economic and financial developments beyond our borders.

If we held this conference just three months ago, let alone a year, we would not be contemplating the financial crisis in the United States nor discussing how it would impact on global markets and the supply of credit, or value of investments.

As challenging as these events are, the real test is how we respond to them; in particular, how our governments respond, how we as industry behave, and how our communities embrace the need for reform. These will be decisive tests of our maturity as developed industrialised economies.

And of course both our countries have experienced recent political change. We meet here after approximately twelve months of a new administration in Australia and the most recent change in Japan. In both cases, the incoming governments are expressing commitment to economic reform.

Thus, the theme of this session is timely - 'Is behind border economic reform enhancing the global competitiveness of Australia and Japan?'. It goes right to the heart our response to global events.

ACCI's message is two-fold.

Firstly, we need to respond with commitment to domestic economic reform. For Australia, that has, at its heart, increasing productivity and international competitiveness.

Secondly, we need to demonstrate confidence in globalisation and global markets, and press further for global trade reform through the completion of multilateral trade rounds, and the proposed Australia-Japan Free Trade Agreement.

On behalf of Australian industry and the broader cause of lifting global living standards through trade and commerce, we were disappointed with the recent failure of the Doha trade round in Geneva. Yet I am pleased that the governments and industry from both our nations stood strongly in those negotiations in an endeavour to broker an agreement. We must redouble our efforts.

If we are unable to conclude multilateral agreements on trade, where the benefits are well quantified and essentially immediate, then it does not augur well for the Copenhagen climate change talks in December 2009, where the economic consequences of various options are yet to be well quantified and the benefits are some years in the future. It is important that multilateral agreements are made that bring realistic timeframes and trajectories to the challenge of reducing greenhouse emissions. Sustainability is critical, and industry has a real interest in bringing about sustainable methods of production and supply. Yet this is a global challenge, one which cannot, nor should not, be left to single nations to take disproportionate action that would adversely affect their capacity to invest in technological solutions.

DIVIDENDS FROM REFORM

In considering the issue of economic reform, it is important to highlight that past reforms have been of great value to our nations. In Australia our economy was transformed by the structural changes of the 1980s and 1990s.

We opened our financial and product markets to globalisation, and we progressively opened our labour market.

As a result, we reaped the benefits as a trading nation, and so have our trading partners.

While there are still significant infrastructure blockages we need to attend to, our supply chains are more efficient, our ports are more productive and our integration into the economies of east and south Asia are growing substantially.

Past programs of reform have underpinned the enhancement of our reputation as a trading nation and a reliable supplier of goods and services.

Let me provide two examples. First, changes to labour laws and practices have dramatically reduced industrial disputes in this country. In recent years, they have been the lowest in Australia's history. While we must always be vigilant, we can now confidently say to our trading partners in Japan, and elsewhere, that the old style industrial relations problems that Australia had a generation ago have disappeared. This satisfactory outcome is a product of reforms by governments, of better handling of labour issues by management, and of a pragmatic rather than ideological approach by many trade union leaders.

Although our Government has proposals to change Australia's labour laws (and we will have some disagreements with our government on aspects of those changes) I am pleased that our government is taking a firm stand on keeping those parts of our laws that will ensure the reliability of supply and a strong hand in dealing with industrial disputes.

I believe our employers and union leaders are acutely aware of the need to deliver industrial fairness within the framework of economic responsibility and reform.

My second example relates to past reforms to Australian financial regulatory systems. Those reforms have created strong structures, significantly stronger than in the United States for example, for regulatory supervision and oversight of markets. It places Australia in a better position to deal with the global challenges, and to do so confidently but realistically. None of us are "islands", even though our nations are in geographical terms.

These examples of the transformation of Australia's systems of industrial relations and financial regulation help answer the question 'whether behind border economic reform is enhancing the global competitiveness of Australia and Japan'?

The answer to this question is undoubtedly yes.

EMBRACING FUTURE REFORM

The challenge for business is to keep making the case for further reform when the natural inclination of governments will be caution given the current global economic downturn.

We cannot take it for granted that Japan and Australia will continue down the path of behind the border economic reform.

There are two things business must continue to convince government of: firstly, that the benefits of economic reform are substantial, and secondly, that having the political will to implement economic reform will pay political dividends.

JOINT ISSUES

What then are the challenges currently facing Australian and Japanese businesses?

In the area of monetary policy, the near term challenge is to ensure relatively tight monetary settings do not choke-off an economic recovery, such as by undermining business and consumer confidence and consequent investment and household spending decisions.

On the vexed question of labour market reform, the case must be made for a program of productivity improvement through flexibility, the upgrading of skills, the embracing of new technologies and the elimination of poor regulation, with emphasis being given to reducing the level of bureaucratic inefficiency, and dealing with the ageing of the labour force and its implications for labour productivity.

The main priority for industry policy must be the continued rejection of protectionism and the encouragement of competition within the business and government sectors, even if this leads to a further consolidation of corporate balance sheets and rationalisation of inefficient protected industries.

In the area of trade policy, both countries need to further broaden their engagement with the world economy. Elements of such a reform program must include reducing barriers to trade, especially to agricultural and services trade, and to inward foreign investment. I mention the services industries in particular – while we are here in the

resource and energy rich state of Western Australia, it is also in the growth of services that Australia has real prospects for penetrating deeper into international markets – and we are already doing that in east and south Asia. As a percentage of GDP and of employment, ‘services’ in Australia are higher than in Japan.

Demographic pressures such as the ageing of the population will be much harder to resolve. Adopting a liberal approach to the movement of natural persons as Australia and Japan confront rising skills and general labour shortages will be crucial.

The need for this continual renewal is paramount. For without it there is a real danger that it will be imposed at greater pain. The rise of China and India cannot be ignored, indeed domestic reforms are needed to address the competitive challenges and secure the opportunities those rising economies present.

While Australia and Japan face common challenges there are also issues that are unique to each economy.

ISSUES FOR JAPAN

For Japan, the real decline of the population, the political need for leadership, an over-regulated economy, and large public debt need addressing.

To address these issues the government must look at greater transparency in fiscal policy making and government spending; further private sector deregulation; and, take substantial moves forward in international trade liberalisation, especially in agriculture, foreign investment and services.

There is one issue above all though that Japan must confront. It is facing probably the most profound changes in demography of any developed country.

Its population is ageing faster than any other country in the world, reflecting both falling birth rates (amongst the lowest in the developed world) and longer life-spans (amongst the highest in the world).

Indeed, Japan’s population has stopped growing and begun to decline – an phenomena virtually unprecedented.

These demographic forces are resulting in a number of important commercial and economic changes in Japan, most notably a substantial fall in the high savings rate.

The ageing of the Japanese population is also increasing the pressure on public spending on aged care services (especially expensive geriatric health care) placing pressure on the fiscal balance sheet.

Japanese industry is being compelled to relocate an even greater share of its productive capacity offshore as it confronts labour shortages per se, and/or rising wage pressures which render domestic manufacturing uncompetitive on the international stage.

Policy options must include a more pro-active and welcoming approach to migration, expanded and simplified recognition of foreign professional and trade skills, and tackling disincentives to greater female participation in the labour force.

ISSUES FOR AUSTRALIA

From the mid 1990s until recently, Australia has experienced very strong economic growth. During this period our public debt plummeted, unemployment rates dropped, and business and consumer confidence and investment grew.

Such growth was assisted through government steps toward trade liberalisation, some reduction in regulation, encouraging greater labour force participation, and prudent financial management especially with respect to government spending.

Despite Australia’s relatively strong economic performance compared to other advanced economies, there are signs that the Australian economy has started to slow, while inflation remains high.

Notwithstanding current global credit turmoil and economic downturn, the Australian Government should embark on economic reforms for the benefit of long run sustainable growth. The Government in this instance should develop a substantial deregulation agenda to increase investment and productivity, reform the tax system, eliminate infrastructure blockages, promote free trade, and encourage skills development as well as skilled migration.

In addition, the Reserve Bank should deliver a sound and considered approach to monetary policy, balancing the impact of government policy on economic growth and the need to maintain sustainably low inflation.

Inflation remains elevated at the present time due to the unprecedented improvement of our terms of trade. However, Australia’s inflation is expected to fall along with projected economic growth in 2009. The moderation in domestic demand and the tightening credit conditions prompted the Reserve Bank to ease monetary policy in both September and October

Difficult times are still ahead as the global community addresses the economic challenges of financial market uncertainty, slowing world demand and lack of affordable finance. The Australian Government must continue to implement policy reforms to ensure that the Australian economy remains sound and competitive once this storm subsides.

CONCLUSION: AUSTRALIA – JAPAN RELATIONSHIP

Australia has a critical interest in the economic and political reform agenda of the Japanese Government – it is our largest single export market, and our closest diplomatic partner in the Asian region.

In many ways the quality and reliability of supply of agricultural, mineral and energy commodities from Australia fuels Japan's economy.

Japan's economic recovery, and its structural adjustment towards sustained economic growth, is very important to Australia's broader trade and investment agenda in the Asia Pacific region. In the same way, Australia's sustained economic performance increases its reliability as a supplier of food and resources to Japan.

ACCI believes the best way Australia and Japan could help each other address behind the border issues is by negotiating a bold and comprehensive Australia– Japan Free Trade Agreement (AJFTA).

These ongoing negotiations should include difficult and sensitive issues, including agriculture, aviation, movement of natural persons and government procurement, as well as the conventional chapters on issues such as intellectual property, investment, manufacturing, services, and trade facilitation.

A bold and comprehensive AJFTA would act as a springboard to take our bilateral relationship to a new level, and lift the capacity of the Australia – Japan partnership to influence the economic reform agenda throughout the region.

I leave you with that very important thought, and once again warmly welcome you to Australia, and wish you the very best in your commercial activities and the strengthening of our relationship.

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