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Trade liberalisation the pathway to growth, jobs and prosperity

Speech delivered at the launch of the Australian Services Roundtable report on services in the Australian economy

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In the aftermath of the deepest global recession since the Great Depression, the opening up of the global economy for trade provides the best possible chance of locking the recovery in place.

The goal of restraining the accumulation of government debt in order to restore government budget bottom lines to sustainable levels is leading to severe fiscal restraint in some countries even before there has been a significant reduction in high unemployment. This is compounding the forces that are working to ensure the recovery in northern hemisphere advanced countries is likely to be anaemic. Though these economies might be growing in a strictly statistical sense, it doesn't and won't feel like a recovery any time soon. Large numbers of people will remain out of work, even larger numbers will be involuntarily under-employed and new entrants into the workforce will find it hard to obtain jobs – especially if they lack the requisite skills.

In these subdued circumstances, and with the poorest nations on earth still struggling to fight their way out of poverty, the world will need to turn to new sources of growth, jobs and prosperity. What better place to turn than unleashing further gains from trade through the removal of unwarranted government-imposed restrictions on the international flow of goods and services?

The gains for a trading nation come from both more exports and from imports being obtained at less cost than the cost of producing them at home. A 2009 study by the Centre for International Economics calculated that as a result of trade liberalisation real incomes in Australia have risen by up to $3,900 per household since the 1980s.

So here, right in front of us, is the pathway to global recovery: strengthening the global trading system. Unlocking the gains from further trade is an essential source – indeed one of the very few available sources – of new global growth, job creation and prosperity.

The Gillard Government is pursuing trade liberalisation in the great tradition of previous Labor Governments. As the new Australian Trade Minister, it is a wonderful honour to take on the trade liberalising mission of my predecessors – distinguished Trade Ministers like John Dawkins, Michael Duffy, the late Peter Cook, Bob McMullan and Simon Crean.

This is not to detract from the hard work of Coalition Trade Ministers like Tim Fisher and Mark Vaile; they put their body and soul into the job. But there are some important philosophical differences on trade policy between the Coalition and Labor and, while I do not want to amplify them in a partisan way, I do feel far more comfortable continuing the Labor tradition of trade liberalisation, through reform of the global trading rules, where the gains are the greatest.

As newly appointed economic and trade adviser to Prime Minister Bob Hawke, I travelled to Cairns in August 1986 to observe and report back to Bob on John Dawkins' efforts to persuade trade ministers from 14 countries to join together as a strong third force in the Uruguay Round of Multilateral Trade Negotiations. These countries all had an interest in agricultural trade liberalisation, to limit and wind back the farm supports and export subsidies of the European Union and the United States.

Phoning the Prime Minister from the Ramada Hotel outside Cairns, I was delighted to report that Dawkins had achieved his ambition – that the Cairns Group of Fair Agricultural Trading Nations had been formed.

As leader of the Cairns Group, Australia was able to pay a pivotal role in bringing the Uruguay Round to a successful completion several years later.

It is this tradition of multilateralism and of Australia punching above its weight that I hope to continue as Trade Minister in the Gillard Labor Government.

Prime Minister Gillard recognises the enormous potential gains from further trade liberalisation. Right now she is meeting world leaders at the 8th Asia-Europe Meeting in Brussels. Australia's objectives for this meeting include promoting sustainable economic recovery, financial sector reform and lowering barriers to trade. It is expected leaders will send a strong message about their resolve to conclude the WTO Doha Round promptly and with an ambitious, comprehensive and balanced outcome, and on the need to reject trade protectionism.

In Brussels the Prime Minister's meetings have included Prime Minister Kan of Japan, President Lee of Korea, Chancellor Merkel of Germany, President Sarkozy of France, President of the European Commission Barosso, and Herman Van Rompuy, President of the European Council. In her bilateral meetings and in the ASEM forum, Prime Minister Gillard has pressed the case for completing the Doha Round and furthered Australia's trade interests with some of our key partners in both Europe and Asia.

To some – the complacent at home and abroad – it might seem strange that Prime Minister Gillard is placing such heavy emphasis on trade liberalisation when our mineral exports are booming and we are enjoying our most favourable terms of trade in 60 years.

But a reforming government is never complacent. It was complacency that led to Australia's over-reliance on primary commodity exports through the 1970s and early 1980s – leaving us vulnerable to the collapse in world commodity prices in the mid-1980s, a balance of payments crisis and Paul Keating's dramatic banana republic statement of May 1986.

The Hawke Government set about the historic task of reshaping and reorienting the Australian economy from a heavily-protected, inward-looking, small market to one engaged with the world, our businesses capable of taking on the global competition and winning.

In this great endeavour the Howard-led Opposition essentially gave bipartisan support and, when in government, the Howard-led Coalition did not seek to reverse these essential reforms, instead continuing the process of market opening. It did not, however, sufficiently invest the proceeds of the mining boom in necessary infrastructure and skills creation, preferring to spend most of the proceeds on electorally-attractive current consumption. Nevertheless, it would be churlish to fail to acknowledge Howard's contribution to economic reform in both Opposition and Government.

Though there are no signs of the present mining boom fizzling out, there will inevitably be periods when it eases off as growth in China, India and other parts of Asia shifts down a gear or two. And as more global production of minerals comes on stream, Australia's terms of trade will descend somewhat from their 60-year peaks. Indeed, such forecasts are contained in the Federal Budget.

The mining boom has brought with it all the challenges of a two-speed economy, most particularly a high exchange rate and the attraction of capital, labour and skills away from non-mining industries to the minerals sector.

Australia has had a two-speed economy for much of its history. Gold rushes during the mid-1800s, booming wool prices during the Korean War, the stagnation of Western Australia and Tasmania as protection caused the industrial economies of the south-east to expand artificially from the 1930s to the early 1960s, and even the migration to Queensland from Victoria during the early 1990s are testament to that. But in the early 21st century, the speed of the leading sector – mining and related industries – is truly breathtaking.

Some countries have failed the challenge of a mining-related two-speed economy – otherwise known as the Gregory Effect, Dutch Disease or the natural resource curse. They have gained too little national benefit from mining and had the competitiveness of their non-mining industries smashed by a high exchange rate and inflated input costs.

The challenge for Australia is to convert the opportunities created by the mining boom into sustainable gains in national prosperity and jobs.

While the reallocation of scarce resources to the leading minerals sector is both necessary and desirable, it leaves Australia's non-mining industries, cities and regions vulnerable to a deterioration of their relative competitiveness and potentially ill-equipped to take up the slack in periods of slower mineral export expansion.

That's why the Gillard Government, in the great reforming tradition of the Hawke and Keating Labor Governments, is intent on implementing an economic reform program designed to re-start productivity growth as the basis for securing the competitiveness of Australian industries, mining and non-mining.

In the best of all possible worlds, not all Australian businesses and industries will succeed in competing on global markets and against imports. The laws of comparative advantage dictate that in some industries overseas businesses will out-compete their Australian rivals. We are, for example, unlikely to see Australian flat-screen TVs displacing Chinese imports. Nor are we likely to return to competitiveness in producing low-value clothing items like cheap socks and underwear.

But the Gillard Government accepts the responsibility of giving Australian businesses every chance to compete by removing business impediments such as skill shortages, inadequate infrastructure and unnecessary business regulation.

In the inaugural address to the HC Coombs Policy Forum at The Australian National Institute of Public Policy in July, I described this reform program, initiated by the Rudd Government, as Phase III economic reform – building on the Phase I micro-economic reforms of the Hawke Government and the Phase II national competition policy reforms of the Keating Government.

Facing out to the world 27 years after Phase I economic reform began with the floating of the currency, Australia now has one of the most open markets on earth. Import quotas have been abolished, tariff rates are at or close to zero and the financial system has been liberalised.

The Keating Government's Phase II economic reform program created greater competition inside the Australian economy through the removal of inefficient government-owned enterprises and exposing the remaining ones to competition from the private sector.

Yet facing inwards, our economy still has up to eight markets. The ad hoc, overlapping and contradictory array of Commonwealth, state, territory and local government regulations continues to hamper the productivity and competitiveness of our businesses.

Phase III economic reform involves the removal of internal regulatory obstacles to private business – moving Australia towards a seamless national economy – investing in and reforms to our education, health and innovation systems, tax reform and increasing the superannuation guarantee to 12 per cent.

As Deputy Prime Minister and Minister for Education and Industrial Relations, Julia Gillard was in the thick of Phase III economic reforms during the Labor Government's first term. Never before had Australia achieved a national school curriculum, a national industrial relations system or a national occupational health and safety system – reforms that are now well advanced under Julia Gillard's leadership.

Enhancing the competitiveness of Australian business through productivity-raising economic reforms cannot yield the deserved dividends if large barriers to international trade remain in place.

During my visit to Washington in my second week as Trade Minister I discussed with the US Administration, the Director General of the WTO and with my Trade counterparts from India, Mexico and Malaysia, ways of kick-starting the stalled Doha Round of Multilateral Trade Negotiations.

The Administration considers – and independent analysis by C Fred Bergsten's Peterson Institute tends to confirm – that the global gains from the deal that was under contemplation in 2008 are not as good as could reasonably be expected. It's not simply a matter of the gains not being big enough for the United States; they are not big enough for the poorest countries on earth either. But nor should they be dismissed; they could provide a basis for further negotiation, strengthening and enhancement.

We need to be creative in our approach to the negotiations to kick-start them and move them towards a conclusion. An ambitious and balanced package of outcomes on agriculture, manufacturing and services will be needed if we are to conclude the Doha Round.

Upping offers on services trade liberalisation could be central to overcoming the current impasse. Services have been under-emphasised in global trade rounds. The Uruguay Round centred on manufacturing and, for the first time, adopted measures to liberalise agricultural trade. It also brought trade in services into the multilateral trading framework, through the General Agreement on Trade in Services (GATS), and addressed trade-related aspects of intellectual property rights (TRIPs). Both agreements have helped transform Australia as a knowledge economy and supplier of world-competitive services. But the GATS is only a starting point of what was intended to become progressive liberalisation of trade in services through rounds of further negotiations. We must continue that effort in the Doha Round.

During my visit to Washington I participated in a panel discussion at a Global Services Summit on upping the ante on trade in services.

Australia is willing to play a leading role in getting onto the negotiating table a substantial package of rules for liberalising trade in services – just as we did for agriculture in the Uruguay Round through the Cairns Group.

We have been working with other WTO members to develop new approaches to negotiating commitments on services with a view to securing a more substantial package of outcomes – such as through clustering of offers on related services.

Progress on services trade liberalisation can be made only if so-called behind-the-border restrictions are addressed. It's all very good for Trade Ministers to seek to negotiate the easing of these behind-the-border restrictions, but if the Ministers and officials responsible for these regulations are not at the table, the Trade Ministers might be whistling in the wind.

Australia is working creatively with other countries across a range of forums – including APEC and the Trans-Pacific Partnership – to develop common approaches to the regulation of infrastructure, transportation, finance, qualifications and other areas that will make it easier for Australian companies to trade and invest in an integrated global economy.

These reforms are worth pursuing unilaterally by the countries themselves and there certainly is a role for greater transparency in highlighting the domestic gains from reforming regulations affecting business and trade.

Last week I released a report commissioned by the Department of Foreign Affairs and Trade estimating the potential benefits of services trade liberalisation.

Today I am launching a report of the Australian Services Roundtable titled, *The new economic challenge: responding to the rise of services in the Australian economy* that further builds the case for services trade liberalisation.

The report confirms the vital importance of services in our economy. A key finding is that our services exports still face barriers to trade that add significantly to the cost of services trade for both importers and exporters. Therefore the gains from trade reform are likely to be a genuine win all round in the case of services.

ASR's modelling suggests a small rise of 0.1 per cent in services sector productivity could result in a sustained annual rise of over $1 billion in Australia's gross domestic product. These sorts of studies in each country would strengthen the pressure for liberalisation.

I urge you all to read the report which builds on other recent studies attesting to the enormous potential gains from liberalising trade in services.

My address to you today would not be complete in the absence of some reference to regional and bilateral trade deals.

Call me a traditionalist – or call me an economist – but it's my view that the biggest potential gains from trade liberalisation arise from non-discriminatory, multilateral arrangements.

A multilateral approach based on the Most Favoured Nation clause in the global trading rules – where the best deal offered to one country is extended to all other countries – maximises the gains from trade and avoids the damage of trade being artificially diverted from low-cost countries to higher-cost countries.

But does that mean there is no role for regional or bilateral trade liberalisation?

The answer lies not in the name but in the content of the agreement.

If a regional or bilateral deal genuinely contributes to multilateral trade liberalisation then it can be a deal worth having. And, with our trading partners negotiating preferential agreements among themselves, the Government has a responsibility to ensure our exporters are not disadvantaged.

But if a bilateral or regional deal inhibits global liberalisation by shutting non-members out of markets, then it can easily be against the interests not only of the world but of the parties to the agreement by increasing the cost of goods and services in those countries beyond those available through full international specialisation.

To sum up, Australia's trade policy in the 21st century must be built on neither complacency nor pessimism: complacency that the mining boom will continue unabated or pessimism that multilateral trade liberalisation is dead.

Successfully concluding the Doha Round of Multilateral Trade Negotiations is difficult and challenging but not impossible. Adding a substantial package of measures for the liberalisation of trade in services might well be the manoeuvre that breaks the present impasse.

The Gillard Government is committed to global trade liberalisation and to an economic reform program designed to give Australian businesses the best chance to compete at home and in tough international markets – a reforming government that connects Labor to the great reforming tradition of the Hawke and Keating Labor Governments.