

ENTERPRISING AUSTRALIA

*ACCI SUBMISSION
TO THE
JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE*

JUNE 2001

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Background

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. Our members are employer organisations in all States and Territories, and all major sectors of Australian commerce and industry.

Through our membership, the ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, more than 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people, with around 20 per cent of these businesses being engaged in international trade and commerce.

All of this makes the ACCI the largest and most representative business organisation in Australia, and underpins our role as the primary representative of Australian commerce and industry on the international stage.

Membership of the ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

Executive Summary

The ACCI believes there is 'no one size fits all' approach to economic policy, management or development/ growth strategy.

What may work for one country at one stage of the economic development curve may not do so for another country similarly placed, let alone in a leading or lagging position.

Issues of economic, commercial, legal and social cultures, histories and practices, of geographic location/proximity, and political processes (democracy or otherwise) can also have substantial impact on economic capacity, performance and prospects.

A more appropriate approach to evaluating comparative economic and commercial performances and prospects of individual nations is to decompose aggregate indicators in an endeavour to ask, and answer, the more important 'why' questions – both for their positive and negative lessons.

The international experiences reported in this submission provide some guidance on these 'why' issues.

Insofar as one can draw inferences from their experience, they are: priority must be given to accelerating and broadening trade liberalisation, and more effective investment in human capital (education); complemented by sound macroeconomic and microeconomic policies; and, a contained role for the public sector.

The appropriate mix, and sequencing, of such policy orientations, however, must be determined within the context of the individual country concerned: there is 'no one size fits all' template which works effectively or optimally in all situations, regardless of context.

Ireland, for example, has benefited substantially from transfers from the European Union (worth as much as 1.5 per cent of Ireland's annual GDP during the 1990s), contrived stimuli from an artificially low business tax rate regime and easier market access to the Union.

Whether Ireland can sustain its economic performance in the absence of these transfers, for example, which will come to an end with the eastward extension of the European Union in the next few years, and/or sustained EU pressure for revision of its tax concessional arrangements, remains to be seen.

Chamber Policies

The Australian Chamber of Commerce and Industry (ACCI) maintains a robust set of policy statements addressing many of the issues raised in the terms of reference for the current inquiry.

The essential threads of these policy statements are the Chamber movement's strong belief and commitment to market forces and private entrepreneurial initiative, in conjunction with a liberal democratic political system.

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Without undertaking a detailed re-statement of our broad sweep of policy statements (which can be found in our annual policy compendium, and available in electronic form on our website: www.acci.asn.au), we would highlight a number of policy positions of particular relevance to this inquiry. For example, in:

. *economic policy*: we seek conditions for rapid and sustainable non-inflationary economic growth, with a fully employed economy; reducing the size of the public sector; and, promoting microeconomic reform to enhance efficiency;

. *competition policy*: prompt and efficient implementation of national competition policy reforms at all tiers of government, giving proper account to ‘public benefit’ considerations; and, promoting through the World Trade Organisation effective and transparent competition policies which reinforce trade and investment liberalisation;

. *education and training policy*: improving education and training systems to ensure they are demand driven and aligned to the needs of commerce and industry; and, facilitating open competition and user choice principles in education;

. *industry policy*: promoting activities which are consistent with market mechanisms, and focus on the competitiveness and innovation of the enterprise; and, the importance of policy certainty for commerce and industry, especially relating to investment;

. *innovation policy*: creating an environment in which new ideas are generated and translated into new products, services and processes by the private sector; and, ensuring a robust system for the legal protection of intellectual property rights;

. *labour relations policy*: achieving greater flexibility and efficiency in the operation of enterprises; and, promoting and encouraging enterprise agreements, with lesser reliance on tribunals;

. *regulatory reform*: pursuing the wind-back of unnecessary regulations, and thus ameliorating their adverse effects of reduced efficiency, investment expenditure and opportunities for growth; and, greater transparency in the assessment of existing and proposed regulations;

. *small business policy*: raising recognition of the different needs and priorities of small firms in key areas such as access to capital, taxation, labour market, and government purchasing;

. *taxation policy*: delivering taxation reform in ways which underpin our international competitiveness; and, which takes into account factors such as equity, economic efficiency, adequacy, and simplicity; and,

. *trade and international affairs policy*: ensuring Australia's integration into the rules-based trading system; and, encouraging the liberal movement of global trade, capital, investment and information.

International Assessments

Studies of the economic performance, both domestic and international, of individual countries can be informative in examining the competitiveness of nations.

However, competitiveness is a relative concept – asking ‘how are we doing compared to others’. As such, assessments of competitiveness are best undertaken on a relative basis, benchmarking one or more countries against each other.

While such competitiveness exercises are not an exact process of economic science, broad general assessments can provide a useful indicative picture of the relative performances of the countries under review.

The Organisation for Economic Co-operation and Development (OECD) has provided¹ useful information enabling benchmarking of the relative contributions to economic growth across its member countries.

The parameters used are contributions of the explanatory variables to per capita growth rates in selected member countries during the 1980s and 1990s.

¹ “Links Between Policy and Growth: Cross – Country Evidence”, in OECD Economic Outlook, No 68, December 2000.

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The variables used in the analysis were: investment share; human capital; population growth; variability of inflation; size of government; and, trade exposure.

Estimation of the parameters is based on multivariate regression methods, rather than the more widely known national accounts approach.

The essential message of the OECD work reinforces the Chamber's assessment: that there is 'no one size fits all' model for economic development and growth.

Or to use the OECD's words: "Although there is agreement on the importance of policy and institutions for growth, the precise mechanisms linking policy to capital accumulation, economic efficiency, technical progress and, ultimately, output growth are still subject to an intense debate."²

As the following chart clearly shows, the main drivers in per capita growth rates during the 1980s and 1990s in OECD member countries were trade exposure and human capital – that is, trade liberalisation and investment in education.

By comparison, size of government had negligible effect (on the methodology used, for the selected countries), and investment shares and population growth no meaningful net effects, for the grouping as a whole.

Nevertheless, there were noticeable differences in the profiles of contributions to per capita growth between individual OECD member countries. For:

. *Australia:* the main drivers were trade exposure and population growth, followed by human capital, with reduced variability of inflation and size of government (on the methodology used, for the selected countries) having minimal impact, while investment share detracted from per capita growth;

. *Canada:* the main drivers were trade exposure and investment share, followed by human capital, with reduced variability of inflation and size of government being ostensibly neutral, while population growth detracted from per capita growth;

² Ibid, at 134

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. *France:* the main drivers were trade exposure and human capital, followed by population growth and reduced variability of inflation, with size of government and investment share being ostensibly neutral;

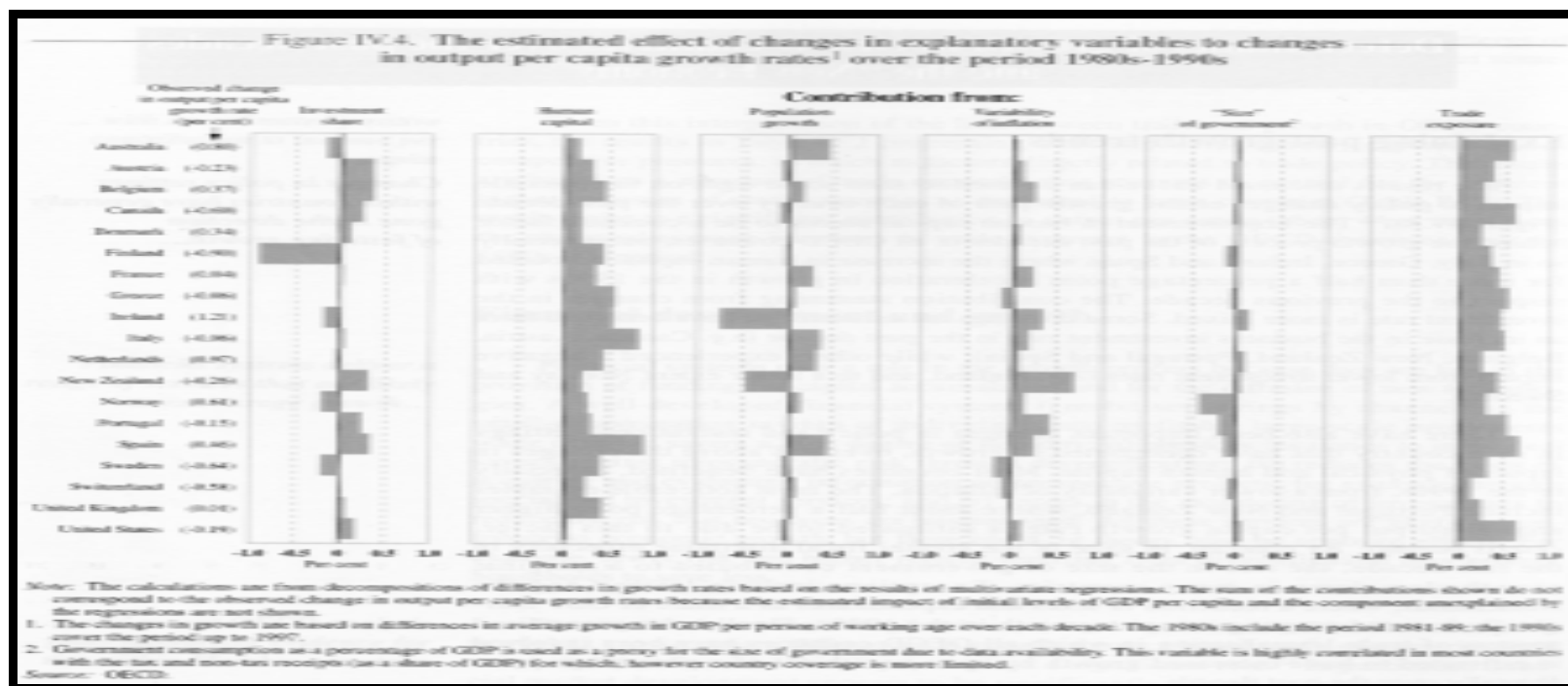
. *Ireland:* the main drivers were trade exposure and human capital, followed by reduced variability of inflation and near neutral impact from size of government, while investment share and population growth detracted from per capita growth (the latter of which, quite substantially);

. *New Zealand:* the main drivers were reduced variability of inflation, trade exposure, investment share and human capital, with size of government having no net impact and population growth detracting from per capita growth rates; and,

. *Norway:* where the main drivers were trade exposure and human capital, followed by reduced variability of inflation and population growth, while investment share and size of government detracted from per capita growth.

Taken as a whole, it would appear the trade liberalisation agenda of the 1980s and 1990s, and the greater policy awareness of human capital issues (such as investment in education) paid worthwhile dividends for all OECD countries.

Macroeconomic policies oriented to stabilising (if not reducing) inflation also appear to have generally paid-off for most OECD countries, although experiences with investment shares and population growth have been uneven across industrialised nations.



Competitiveness – Macroeconomic Indicators

A critical determinants of an economy's and an individual enterprise's performance in global trade and investment is its international competitiveness.

In simple terms, competitive and efficient national economies, and individual enterprises, will perform well in the international market place; those who are not, generally will not.

While there is no single, uniformly accepted measure of international competitiveness, a number of indicators can provide a broad sense of a country's or a firm's competitiveness.

This section of the submission will look at a number of macroeconomic indicators often taken into account when evaluating a nation's international competitiveness.

The following section will complement this perspective by looking at survey-based indicators of the factors influencing the international competitiveness of individual firms.

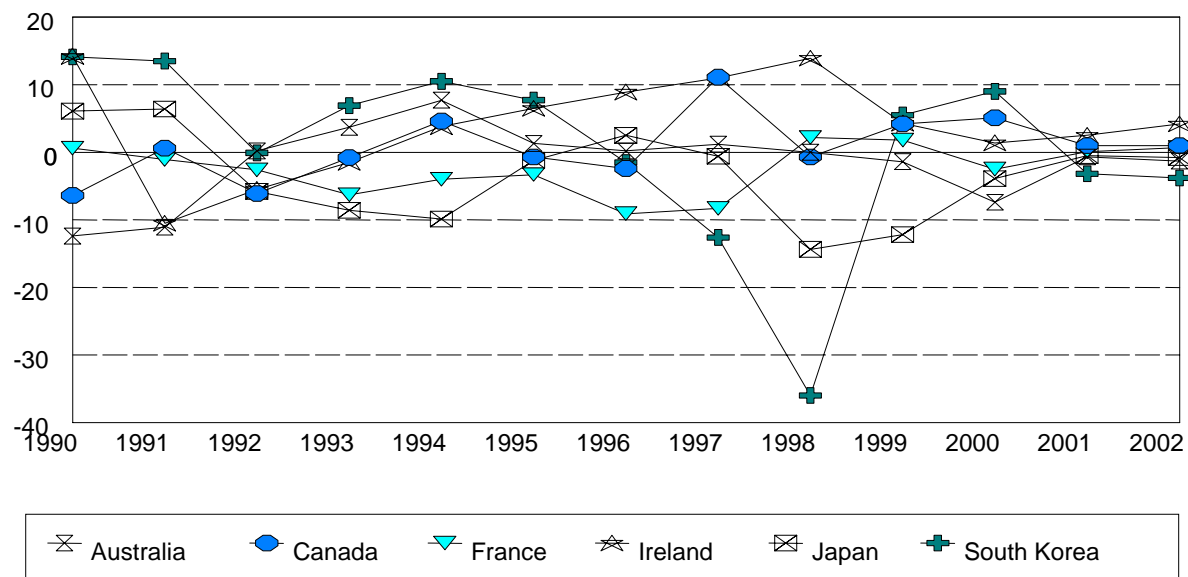
The graphical representation of the following narrative can be found in Graphs 2a – 2f.

The data in Graphs 2a to 2c inclusive are adjusted: being net of the overall movement on that indicator for the average for the OECD as a whole.

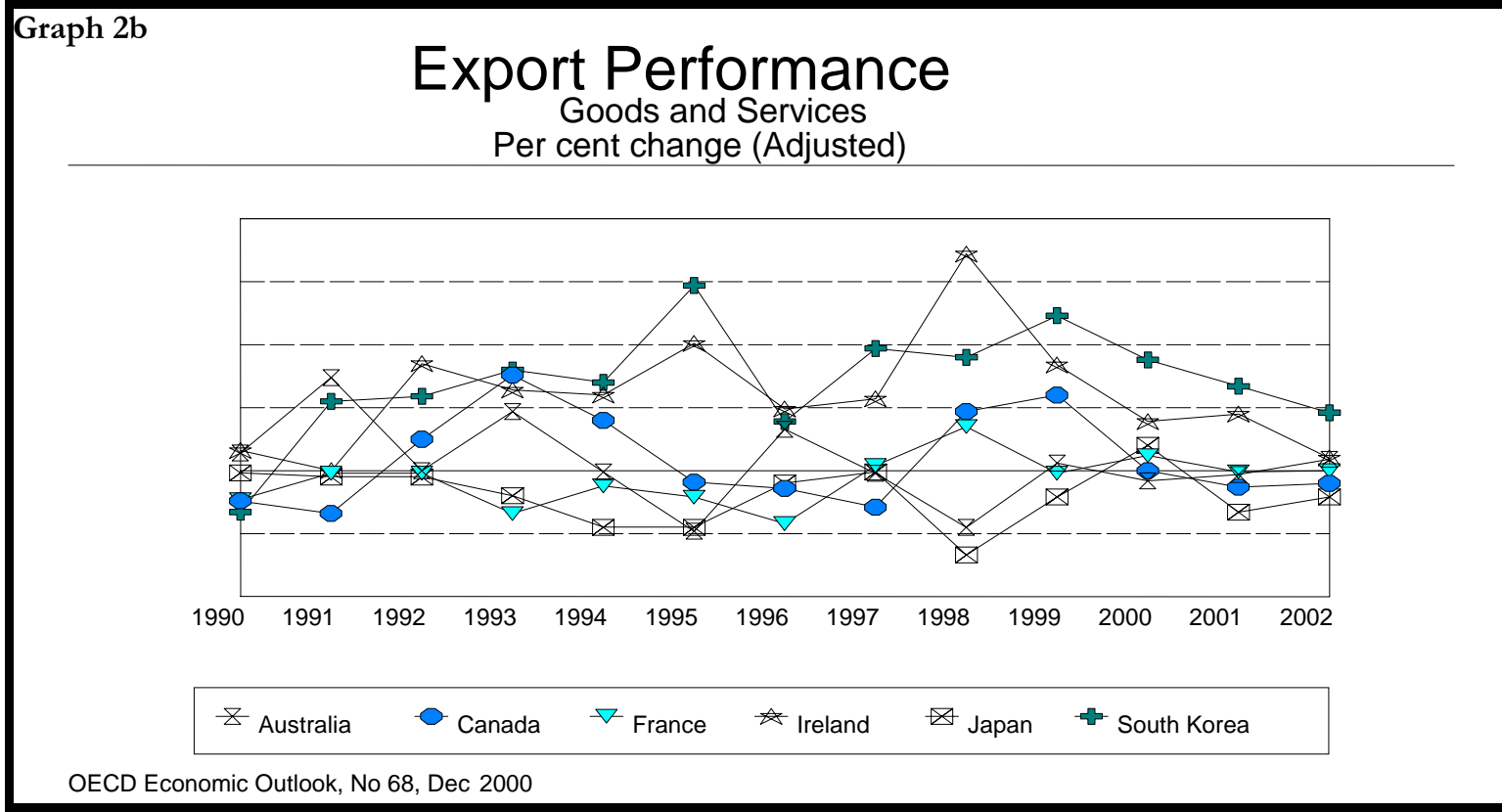
For example, where the line for the relevant country/indicator sits above the horizontal zero line, then the country has performed better than the OECD average for that indicator; where it is under the zero line, it has performed below the OECD average for that indicator. All figures are annual per centage changes.

Graph 2a

Business Investment Per cent Change (Adjusted)

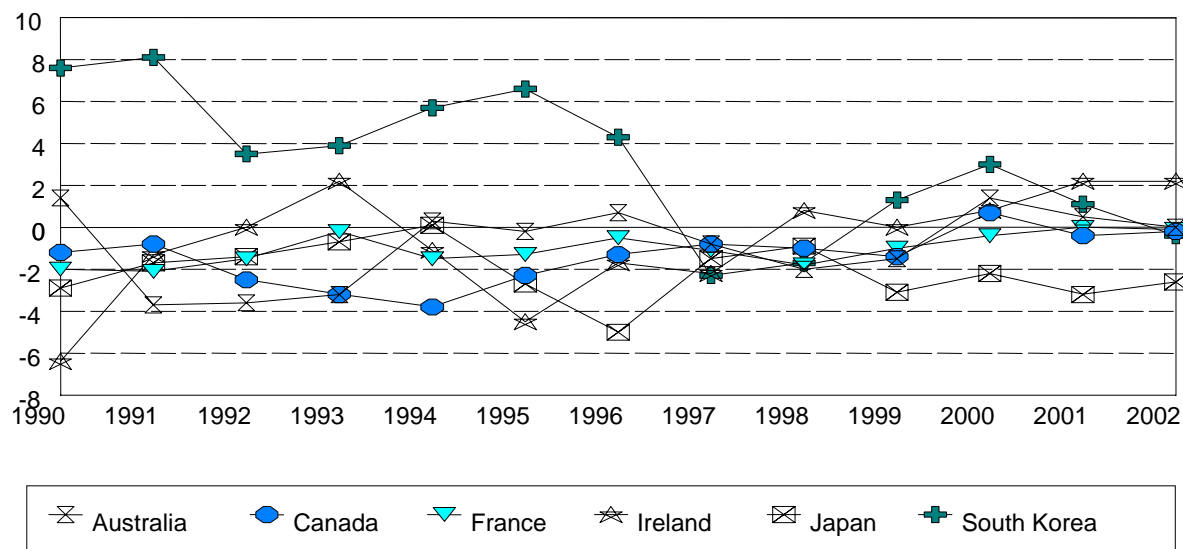


OECD Economic Outlook, No 68, Dec 2000



Graph 2c

Unit Labour Costs For the Total Economy Per cent change (Adjusted)

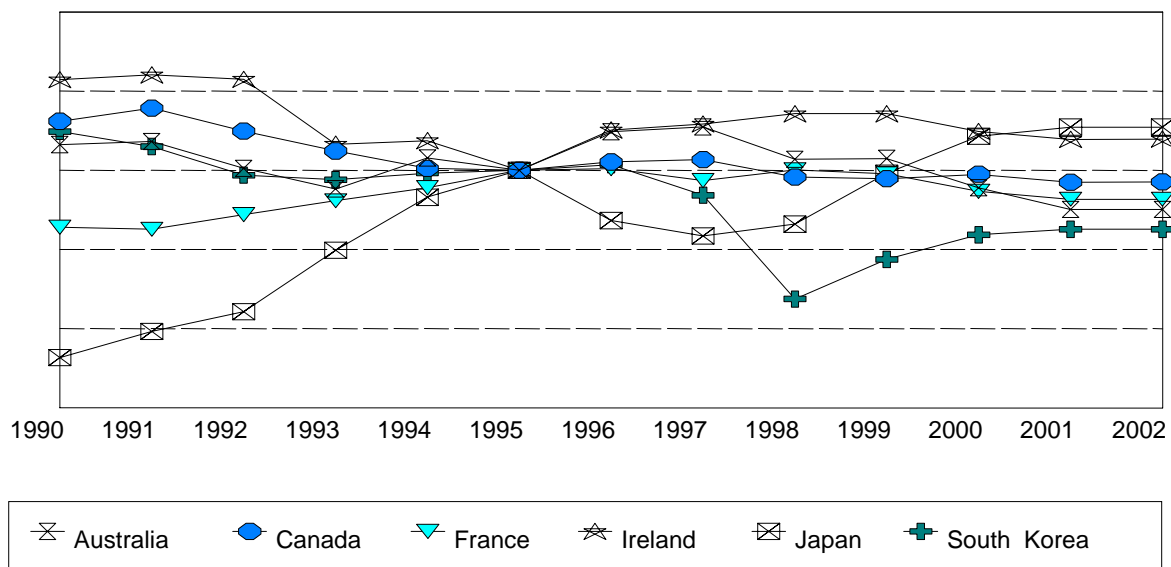


OECD Economic Outlook, No 68, Dec 2000

Graph 2d

Effective Exchange Rates

Indices: 1995 = 100

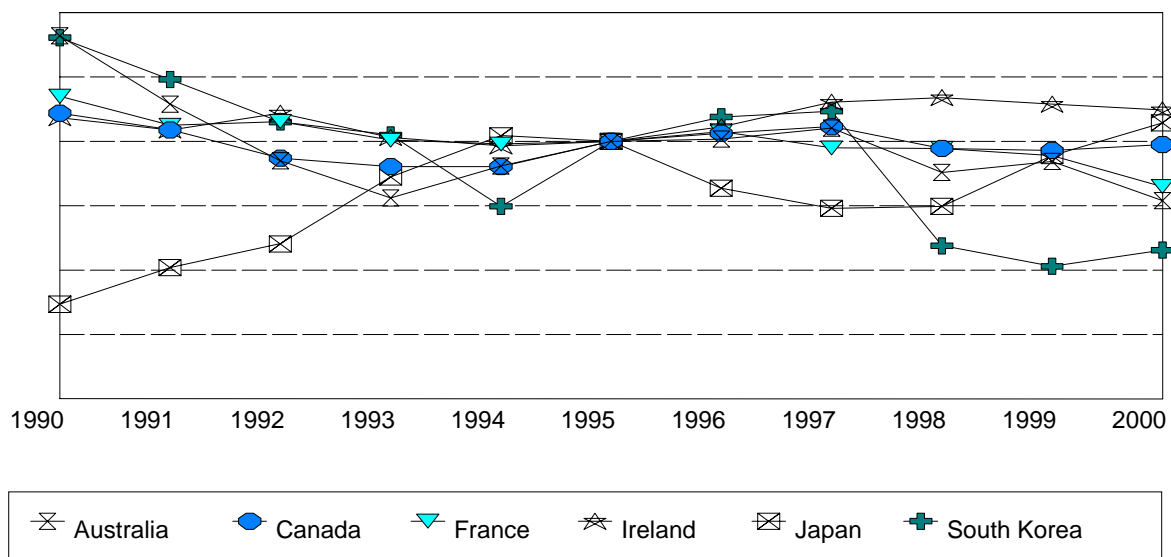


OECD Economic Outlook, No 68, Dec 2000

Graph 2e

Competitiveness

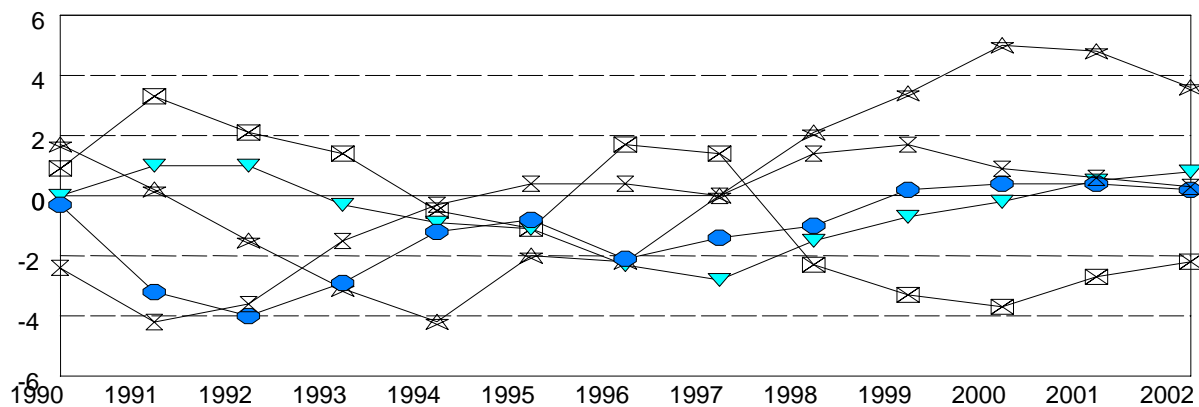
Relative Export Prices
Indices: 1995 = 100



OECD Economic Outlook, No 68, Dec 2000

Graph 2f

Output Gaps Per cent (Adjusted)



Australia
 Canada
 France
 Ireland
 Japan

OECD Economic Outlook, No 68, Dec 2000; entoz06a
 Deviation of actual GDP from potential GDP, as per centage of potential GDP

In summary terms, on:

. *business investment:* for much of the 1990s, Australia remained around OECD average, bar the recession years of the early part of the decade.

Canada has been around, and France and Japan have generally been below, OECD average.

South Korea has generally been above OECD average for much for the decade, except for 1997 and 1998, associated with the 'Asian economic turmoil'; while Ireland has come from below to above OECD average over the same time frame (Graph. 2a);

. *export performance (goods and services):* for much of the 1990s, Australia's export performance (goods and services) remained around OECD average.

Canada demonstrated a strong cyclical movement in its export performance, while France and Japan generally performed below OECD average for much of the 1990s.

South Korea and Ireland performed above OECD average, although experiencing a convergence (decline) back toward OECD average since the late 1990s (Graph. 2b);

. *unit labour costs:* for much of the 1990s, Australia's unit labour cost growth for the total economy remained slightly below or near to the OECD average.

Canada demonstrated a mild cyclical movement in its unit labour costs, against an underlying upward trend, as did France and Japan (although the late 1990s saw Japan move below OECD average).

South Korea has seen its unit labour cost growth rate fall from well above OECD average in the early 1990s, to below average in 1997 and 1998, with an above-performance thereafter.

Ireland's unit labour cost growth has show a trend rise, from below OECD average in the early part of the 1990s to above average in the early part of the 2000s (Graph. 2c);

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. *exchange rates:* Australia and Canada experienced a general trend depreciation of their respective exchange rates during much of the 1990s.

France experienced a moderate appreciation, and Japan a substantial appreciation, in their respective exchange rates over the same period.

By comparison, South Korea's exchange rate remained fairly stable during the early 1990s, before dropping noticeably in 1998 (again, reflecting the 'Asian financial turmoil'), before stabilising at a lower level.

Ireland's exchange rate also depreciated during the early 1990s, before recovering much of its lost ground in the latter part of the decade (Graph. 2d);

. *competitiveness (relative export prices):* Australia experienced a modest cyclical movement, around a trend decline, in its competitiveness over the 1990s.

Similar cyclical/trend patterns were also observed for Canada and France (albeit less pronounced), and South Korea (more pronounced).

By contrast, Japan experienced a cyclical pattern, around a general trend rise, in its international competitiveness. Ireland's competitiveness improved modestly over the 1990s (Graph 2e); and,

. *output gaps (actual against potential national output):* Australia closed the output gap during the 1990s, rising from well-below potential (reflecting the recession years of the early part of that decade), to slightly above potential a decade later.

Canada experienced a similar profile, although remaining below potential until the end of the decade, while the output gap for France widened during much of the 1990s before closing after 1997.

Japan experienced above-potential output during the early to mid 1990s, with well-below potential national output experienced/expected between 1998-2002.

Ireland saw a widening of its output gap (actual lagging increasingly behind potential national output), before turning around this situation to one where it is expected to see actual exceed potential output by a noticeable margin (Graph. 2 f).

Taken as a whole, these economic profiles are consistent with, and reinforce, the Chamber's view of 'no one size fits all' approach.

Competitiveness – Survey-based Indicators

While macroeconomic indicators are important considerations in trade and foreign investment location decisions, they are not, of themselves, decisive. Other factors are taken into account, such as broader policy settings, microeconomic parameters, and political risk.

Foreign firms or investors routinely benchmark alternate and/or competing countries or markets against a package of criteria that best reflect their own commercial objectives and strategies.

Again, there is 'no one size fits all' approach to such evaluations; they are case specific. They can involve objective as well as subjective assessments of potential trading partners or, for foreign investors, host countries.

The annual World Competitiveness Reports, produced since the early 1990s by the World Economic Forum, provide a useful, and reasonably robust, insight into the benchmarking and competitiveness of a broad range of countries across a spectrum of criteria.

The Reports are based on surveys of around 3300 senior business executives from (in the most recent – 2000 – report) 47 countries across 110 issues.

The Chamber, for reasons of brevity, clarity and simplicity, will not provide an exhaustive commentary and analysis of all of the items surveyed.

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Rather, we will focus on several aggregate indicators published in World Competitiveness Reports as summary benchmark measures of the competitiveness of the nations studied.

In assessing the relative competitiveness of nations, the World Competitiveness Reports use a rank-order system: that is, assigning the number 1 to the best performer in each category, the number 2 to the next best, and so on. In simple terms, the greater the absolute number, the worse the performance.

The main aggregate indicators used are:

- . *domestic economic strength*: an overall evaluation of the domestic economy at the macroeconomic level;

- . *internationalisation*: the extent to which a country participates in international trade and investment flows;

- . *government*: the extent to which government policies are conducive to competitiveness;

- . *finance*: the performance of capital markets and the quality of financial services;

- . *infrastructure*: the extent to which resources and systems are adequate to serve the basic needs of business;

- . *management*: the extent to which enterprises are managed in an innovative, profitable and responsible manner;

- . *science and technology*: evaluation of scientific and technological capacity together with success of basic and applied research; and,

- . *people*: the availability and qualifications of human resources.

As can be seen from this list, the World Competitiveness Reports cover a broad spectrum of parameters of interest to commerce and industry interested in foreign trade and investment.

In preparing this submission, the Chamber sought to undertake a comparison of the competitiveness of a selected group of nations across two time periods – the years 1991 and 2000 – to examine movements in such rankings.

Regrettably, changes in the reporting of the surveys does not permit this approach.

For example, while the 1991 reported 23 developed, industrialised nations in one category and 10 developing nations in a second category, the 2000 report reported a single, integrated cross-section of 47 countries ranging from developed, industrialised, through to dynamic developing and struggling transitional economies.

(The primary results of the individual annual surveys can be found in Tables 1a and 1c of this submission.)

However, the Chamber has restyled the indicators to enable some degree of across-time comparison, by converting country rankings into placement within quartiles of the countries studied.

This approach enables some insight into movements in relative competitiveness to be obtained by examining shifts in countries between quartile groups.

For example, an industrialised country ranked in the top 6 nations for any category in 1991 will be ranked in quartile 1 (there being 23 such countries that year), while a country ranked 19 or below will fall into quartile 4.

Similarly, any country ranked in the top 12 nations for any category in 2000 will be ranked in quartile 1 (there being 47 such countries that year), while any country ranked 37 or below will fall into quartile 4.

While we recognise there are limitations to this approach, barring detailed, data-intensive and technically-demanding econometric analyses, we regard this as the best reasonably available approach to assessing this useful data set.

The re-calibration of the ranking order summary data into quartiles can be found in Table 1b (which can be cross-referenced with Table 1a), and Table 1d (which can be cross-referenced with Table 1c).

A summary of the relative movements for certain countries across quartiles between 1991 and 200 can be found in Table 1e.

Table 1a World Competitiveness Report Rankings

Rank: 1991	Dom. Ec Strength	Internet	Govt.	Finance	Infrast.	Mgmt	Sc & Tech	People
Argentina	n.c.	n.c..	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.
Australia	17	20	14	18	4	17	18	12
Canada	10	16	6	11	2	11	17	5
France	12	17	18	15	8	7	8	16
Ireland	15	7	11	14	17	15	12	11
Israel	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.
Japan	1	1	2	1	5	1	1	1
Total	23	23	23	23	23	23	23	23
Singapore	2	1	1	2	5	1	3	1
South Korea	1	4	6	7	4	3	1	4
Total	10	10	10	10	10	10	10	10

Table 1b World Competitiveness Report Rankings

Quartile: 1991	Dom. Ec Strength	Internat	Govt.	Finance	Infrast.	Mgmt	Sc & Tech	People
Argentina	xx	xx	xx	Xx	xx	xx	xx	xx
Australia	4	4	3	4	1	4	4	3
Canada	2	3	2	3	1	3	4	1
France	3	4	4	3	2	2	2	4
Ireland	3	2	3	3	4	3	3	3
Israel	xx	xx	xx	xx	xx	xx	xx	xx
Japan	1	1	1	1	1	1	1	1
Singapore	1	1	1	1	1	1	1	1
South Korea	1	1	2	2	1	1	1	1

Table 1c World Competitiveness Report Rankings

Rank: 2000	Dom. Ec Strength	Internat	Govt.	Finance	Infrast.	Mgmt	Sc & Tech	People
Argentina	42	38	35	39	37	38	46	38
Australia	11	29	4	9	4	11	18	6
Canada	13	20	15	12	7	6	16	4
France	10	11	41	19	16	23	7	22
Ireland	2	7	3	14	19	8	17	16
Israel	24	23	32	23	24	19	11	8
Japan	6	27	22	22	21	24	2	20
Singapore	8	2	1	10	13	5	9	5
South Korea	20	30	26	34	31	32	22	27
Total	47	47	47	47	47	47	47	47

Table 1d World Competitiveness Report Rankings

Quartile: 2000	Dom. Ec Strength	Internat	Govt.	Finance	Infrast.	Mgmt	Sc & Tech	People
Argentina	4	4	3	4	4	4	4	4
Australia	1	3	1	1	1	1	2	1
Canada	2	2	2	1	1	1	2	1
France	1	1	4	2	2	2	1	2
Ireland	1	1	1	2	2	1	1	1
Israel	2	2	3	2	2	2	1	1
Japan	1	3	2	2	2	2	1	2
Singapore	1	1	1	1	2	1	1	1
South Korea	2	3	3	3	3	3	2	3

Table 1e World Competitiveness Report Rankings

**Change in
Quartile
2000 – 1991**

	Dom. Ec Strength	Internat	Govt.	Finance	Infrast.	Mgmt	Sc & Tech	People
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Argentina	xx	xx	xx	xx	xx	xx	xx	xx
Australia	3	1	2	3	0	3	3	3
Canada	0	1	-1	2	0	2	2	0
France	2	3	0	1	0	0	1	2
Ireland	2	1	2	1	3	2	2	1
Israel	xx	xx	xx	xx	xx	xx	xx	xx
Japan	1	-2	-1	-1	-1	-1	0	-1
Singapore	0	0	0	0	-1	0	0	0
South Korea	-1	-2	-2	-1	-2	-2	-1	-2

Before providing a commentary and analysis on the movements across quartiles between 1991 and 2000, we would offer the following caveats:

. firstly, the absence of any movement between quartiles should not necessarily be viewed in pejorative terms, as it may reflect the country's existing standing in the first quartile (from which it cannot improve, for example, Singapore) and/or worthwhile movements within quartiles (for example, from the bottom of a quartile to the top thereof); and,

. secondly, the data appear to be subject to global factors, for example where perceptions of/ attitudes to a country's commercial circumstances are influenced by its position on the economic cycle or by the impact of wider economic shocks (for example, South Korea in the late 1990s).

Against this background, an examination of Table 1e indicates between 1991 and 2000:

. Australia and Ireland demonstrated the strongest improvements in competitiveness, both moving ahead two quartiles. While movement up the economic cycle would have played some part in this improvement (see also Graph 2f on output gaps), other characteristics also played a role.

For Australia, these other characteristics included improvements in finance, management, science and technology, and people, while for Ireland they included infrastructure, government, management, and science and technology;

. Canada and France showed modest improvement in competitiveness, both moving up 1 quartile, with economic cycle factors again playing a role, albeit more moderate than for Australia and Ireland.

The main contributors to Canada's performance were in the areas of finance, management, and science and technology (although it declined on the parameter of government), while for France the improvement built on internationalisation and people; and,

Singapore and South Korea, the former of which remained stable (largely because of its consistent standing at the higher end of the first quartile, from where such aggregate improvement is not possible).

South Korea, by contrast, dropped two quartiles (from 1st to 3rd), reflecting a clear downward revision in business and investor attitudes to that country (both in terms of the impact of the Asian financial turmoil, and the policy settings prevailing in that country which have impacted upon the nature and pace of economic rejuvenation).

Taken as a whole, beyond domestic economic strength (which ostensibly reflects the individual country's position on the economic cycle), improvements in quartile ratings largely built on factors such as finance, management, science and technology, and people – what some refer to as 'soft infrastructure'.

Summary and Conclusion

The essential message from the analyses undertaken in this submission is there is 'no one size fits all' template model which works effectively or optimally in all situations, regardless of context.

Rather, policy settings must be determined for their appropriateness, effectiveness and efficiency within the wider domestic and international context in which they are applied.

In some situations, there is no role for policy (read: government intervention), in other cases there may be a role, and thereafter, determining what is the 'right' policy setting, and means and duration of implementation, can be subject to debate.

Taken as a whole, the Chamber sees merit in robust analytical exercises which examine the experiences of other countries.

However, we see little value in simply applying what may have 'worked' in other countries without a clear understanding of the reasons for its success (or otherwise, relative to alternative approaches) and its applicability to Australia.