Industry Policy in Australia
Industry Policy in Australia

Michael Emmery
Economics, Commerce and Industrial Relations Group
21 September 1999
Acknowledgments

The author wishes to acknowledge the constructive comments on an earlier draft of this paper provided by an outside referee, Malcolm Aldons, and his colleagues in the Parliamentary Information and Research Service, in particular June Verrier, John Kain, Dave Richardson, Derek Woolner and Greg Baker.

Inquiries

Information and Research Services publications are available on the ParlInfo database. On the Internet the Department of the Parliamentary Library can be found at: http://www.aph.gov.au/library/

IRS Publications Office
Telephone: (02) 6277 2760
Contents

Major Issues ........................................................ i
Introduction ........................................................ 1
  Overview of the Industry Policy Debate .............................. 1
Australia's Current Industry Policy Mix .............................. 5
  The Current Industry Assistance Package ............................. 5
  The Coalition Industry Policy Statement in 1996 ...................... 6
  Current Calls for New or Increased Industry Assistance ............ 8
Government Response to Mortimer Review and Related Industry Inquiries ...... 11
Post–2000 Industry Policy Commitments ............................. 16
Australia's APEC Commitment ...................................... 17
Related Economic Policies ......................................... 18
Arguments for Industry Assistance ....................................... 20
  Trade Liberalisation in Australia Has Gone Too Far. ............... 21
  Closer Government/Industry Cooperation ............................. 22
  Strategic Trade Policy ............................................ 22
  Nature of Government Intervention .................................. 23
Arguments for Trade Liberalisation ...................................... 26
  A More Competitive Manufacturing Sector ............................. 26
  Risks in 'Picking Winners' .......................................... 27
  Tariff Reductions Beyond the Year 2000—Are They Justified? ....... 29
    Tariff Levels Overseas ........................................ 29
    Diminishing Benefits from Further Tariff Cuts. ................... 31
    Implications of Broader Economic Policy Reforms .................. 32
Conclusions and Lessons for Future Policy ............................. 34
  Trade Protection Policy ........................................... 34
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
</tr>
<tr>
<td>EPAC</td>
<td>Economic Planning Advisory Commission</td>
</tr>
<tr>
<td>ETM</td>
<td>Elaborately Transformed Manufactures</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade (replaced by the World Trade Organisation)</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>IRS</td>
<td>Information and Research Services (of the Parliamentary Library)</td>
</tr>
<tr>
<td>MPF</td>
<td>Major Projects Facilitation (provided by Investment Australia)</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NTB</td>
<td>Non-tariff barrier</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PMV</td>
<td>Passenger Motor Vehicles</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities, Threats</td>
</tr>
<tr>
<td>TCF</td>
<td>Textiles, Clothing and Footwear</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
</tbody>
</table>
Related IRS Publications


Tas Luttrell, 'Free Trade or Protectionism?: Australia's History and the Arguments For and Against', Background Paper No. 16, 1996–97.


Major Issues

The current industry policy mix has the following characteristics. The average effective rate of assistance to manufacturing industries has been progressively dismantled over 30 years from 35 per cent to five per cent in 2000–01. Average tariffs in Australia are now comparable to those in other Organisation for Economic Cooperation and Development (OECD) countries and below those in most developing countries. Non tariff barriers to assist Australian industry have been largely eliminated. Assistance is provided through the Budget in the form of bounties on select industries and tax concessions on Research and Development (R&D) and other inputs, but Budget assistance represents less than 10 per cent of the total assistance to manufacturing.

Tariffs still represent a substantial income transfer from Australian consumers of protected goods to the domestic producers of those goods. The average effective rate of assistance of five per cent corresponds to a net subsidy equivalent of $3.3 billion. The major recipients of this subsidy are the textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) industries. There is also a wide range of tariffs of five per cent or less and these have been referred to the Productivity Commission for review.

The Coalition Industry Policy Statement in 1996 announced a more proactive approach to both industry and trade policies, in particular, that Government would work in partnership with industry to overcome areas of market failure and facilitate growth. This 'partnership with industry' approach has been pursued with action agendas now being implemented, or in the process of formulation, for 17 manufacturing and service industries. The Opposition has supported a similar approach using Strategic Action Plans which would typically be five year plans, involving industries and government working in partnership.

The Mortimer Review and several related industry inquiries advocated this partnership with industry approach but also sought investment subsidies, particularly to attract foreign investment, and increased incentives for exports, R&D and innovation.

The Government did not accept the Mortimer Review proposal to establish a $1 billion investment incentive program. Instead it established Invest Australia as a national investment agency and appointed a Strategic Investment Coordinator to the Prime Minister. This agency has been active facilitating major project approvals but the Government has offered investment incentive packages to only two major projects. This paper outlines the risks involved in 'picking winners' with selective investment incentives and the poor track record of past programs, particularly some State programs in the 1980s.
A number of important commitments have already been made which will determine the nature of post-2000 industry policy. The most important is Australia's commitment under Asia-Pacific Economic Cooperation (APEC) to implement free trade by the year 2010.

However the future of trade liberalisation in Australia is not nearly as clear as the above statement would suggest. This paper documents a range of incidents, both in Australia and overseas, that indicate a re-emergence of protectionist pressures and have been interpreted as signalling a weakening in the resolve of governments in Australia and overseas to commit themselves to a firm program and timetable for the movement to free trade.

There may be considerable support in Australia for the application of reciprocity in trade policy where Australia would only agree to tariff reductions when its trading partners offered trade barrier reductions of similar value. In the author's view, this would be a step backwards. The potential benefits to Australia from being an open trading country are such that we can benefit from being a leader, not a follower, on the road to free trade.

The best way to end the speculation and uncertainty in Australia about the re-emergence of protectionist pressures is for the Government to more strongly confirm its APEC commitment to free trade and to adopt a firm program of step by step actions to achieve this objective.

A commitment to the total removal of tariff barriers does not imply that there will then be no role for industry policy, and the Government's responsibility to industry will be essentially laissez-faire. In fact, quite the opposite is proposed. The removal of the remaining tariff barriers will expand the opportunities for Australian industry to restructure, enter new high growth activities and become more internationally competitive. The realisation of these opportunities can be enhanced by government and industry working together to remove impediments to growth and to ensure that the necessary intellectual, physical and regulatory framework is available.

A second major Government commitment is to freeze tariffs on TCF and PMV for five years from 2000 and implement further specified tariff cuts for these industries in 2005. As these are the major high tariff areas, this means that the bulk of the action to dismantle tariffs to meet Australia's commitment to free trade in 2010 has been deferred to the period 2005–10. The Government is seeking to prepare these industries for the adjustment to lower tariff levels through the provision of substantial performance-based incentives. For example, the Automotive Competitiveness and Investment Scheme will provide assistance to PMV of up to $2 billion over five years from January 2001.

Current indications are that assistance to industry via the Budget will increase in the coming years. The Government has commitments to increase spending on R&D, innovation, investment attraction, TCF and PMV, and may incur additional outlays to help business adjust to the Goods and Services Tax (GST) package and expected reforms to business taxation. But as in the past, the state of the Budget surplus/deficit is likely to be a
major determinant of the level of budgetary assistance to industry, and a source of uncertainty to the local industry receiving that assistance.

There is widespread agreement that the traditional arguments for high trade barrier assistance, namely its role in generating growth, employment, infant industries, foreign exchange earnings and defence industry capability have little relevance to current economic circumstances and trading conditions. There are ‘new’ arguments, however, not for a return to higher tariffs, but for significant changes to strengthen the Government's industry policy. It is argued that Government should be more pro-active and should seek to achieve an appropriate balance in industry policy between the mature and the newer industries. The new industries have particular characteristics—the high growth in demand, rapid technological change, new markets, risk of obsolescence, and a strong trade orientation—which need to be recognised in future industry policy. This will require that future industry policy give greater prominence to education and training, research and development, facilitation of innovation, incentives for venture capital, property rights, sharing of the infrastructure provision task and communication and coordination linkages between the key stakeholders.

Government actions to date to promote the newer industries appear to involve a relatively low-key response and a small commitment of resources. While these are steps in the right direction, they cannot be seen as constituting a major shift in the focus of industry policy from the traditional industries to the newer industries and technologies. Australian industry policy continues to be dominated by the PMV and TCF industries.

If such a shift in industry policy is to occur, it will need to be driven by commitments at the highest level of Government and industry. It will require more than government seed money to encourage the current private sector efforts in these areas. The generation of the required momentum to develop investor confidence is likely to require some sharing between industry and government of the substantial costs and risks involved in the early years.

Finally there is evidence that the education and training process in Australia is not well attuned to the requirements for industry employment. The shift in emphasis towards the newer, high technology industries needs to be underpinned by the development of a broader knowledge-based society. Education and vocational training should form an integrated part of the industry policy framework.

A forthcoming Research Paper examines the long run performance of the manufacturing sector. The growth in the manufacturing sector has been far slower than in the rest of the economy and there has been no growth in manufacturing employment. However there are signs for optimism that the benefits of trade liberalisation and other industry policies, and the associated gains in efficiency and international competitiveness are starting to be reflected in the performance of the manufacturing sector. These include the strong growth in manufacturing investment and productivity and in exports of elaborately transformed manufactures in recent years. Also the ability of Australian manufacturers to retain or find
new export markets in the current world financial crisis is an indicator of the competitiveness and robust nature of the sector.
Introduction

Overview of the Industry Policy Debate

This paper examines the current role and structure of industry policy and speculates as to its future directions. It first examines the current industry policy mix, the level of assistance provided, the key forces at work to influence policy change and how the Australian scene has reflected the international trade agenda. The second part of the paper reviews the arguments for industry protection and the arguments for trade liberalisation. Particular emphasis is given to evaluating what we call the 'new' arguments for industry assistance which encompass different grounds for government intervention from the traditional arguments for barrier protection. The third part of the paper examines the arguments for further liberalisation and the risks of 'picking winners'. The final section pulls together the main threads and examines where industry policy might progress from here.

The emphasis is on Commonwealth assistance to manufacturing, both via barrier protection and via outlays and tax concessions in the Federal Budget. State government industry policies are referred to only briefly but most of the observations and lessons pointed to here would apply equally to State assistance programs.

A related Information and Research (IRS) paper titled Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation provides a historical perspective. It seeks to identify the drivers of change and to provide a better understanding of the macro-economic, industry, bureaucratic and political forces that have been, and remain, active in the formation of industry policy in Australia.

A second related IRS paper titled The Performance Record of Australian Manufacturing examines indicators of output growth, employment, investment, trade in manufactures, productivity growth and the uptake of training and technology. It concludes that the performance record of Australian manufacturing has improved significantly in the 1990s. It is argued that both industry policy reforms, and macro and microeconomic reforms to improve the competitiveness of the economy, have contributed to this uplift in manufacturing performance.
The actions of the Hawke/Keating Governments to phase out tariffs on Australian manufacturing and seek a regional commitment to free trade under the auspices of APEC led many observers to question whether there remained any real role for an industry policy in the years ahead. The two major public inquiries into industry policy initiated by the Government (known as the Mortimer and Goldsworthy Reports after their respective chairs) argue strongly for a strengthening of and reforms to industry policy. A number of academics have suggested new models for industry policy to replace the now largely discredited high barrier protection model.

To date, the industry policy debate in Australia has been dominated by the issue of trade barriers to protect manufacturing industries. High protection walls for most manufacturing industries were erected in the 1930s and growing concerns about their impact on the long term viability of the sector gained momentum during the 1960s. The Tariff Board, the Vernon Committee and a number of academics and journalists and Liberal backbencher Bert Kelly began the long battle for the trade liberalisation of Australian manufacturing. Most of the high protection barriers have now been removed but it has taken 30 years to achieve this and moderate tariffs remain for several key industries and a wide range of industries are still subject to tariffs of five per cent or less.

Most other countries, both in the OECD and some of the developing countries, moved more rapidly than Australia to remove barriers to trade in manufactures in the early post-war decades. Trade liberalisation is widely recognised as a worthy unilateral policy goal, rather than a goal to be mainly pursued in multilateral forums such as the World Trade Organisation (WTO). Of particular importance has been the turnaround in the national industry lobby groups from strong opposition to strong support for an open trading system. There is widespread recognition today that trade liberalisation has contributed to a more robust and internationally competitive manufacturing sector and that the benefits of this are now apparent in strong exports of elaborately transformed manufactures and much stronger productivity growth. Many commentators have pointed to the better than expected performance of Australian manufactured exports through the present Asian crisis and interpreted this as an indicator of our competitive strength and an ability to adjust to major changes in world markets.

The Australian Chamber of Commerce and Industry has endorsed the current policy stance on open markets in these terms:

It is by opening the economy to greater competition and by making it more flexible that Australia has been able to do as well as it has ... Australia is protected by free markets and low tariffs. It is because Australian business is exposed to the forces of international change that we have been able to cope. Attempting to hold back the tide of change would only mean that when the inevitable adjustment finally took place, it would do so in the midst of wholesale economic collapse.
The Prime Minister has reaffirmed Australia's free market commitment and opposition to any retreat from global free-market economic competition in the face of the widening world economic crisis. He is reported as saying:

Australia cannot afford to turn back on economic reform … We will not return to protectionist approaches … We are not going to risk export markets by shortsighted protectionism.

The Government was conscious of the pain some parts of the community were bearing as a result of globalisation and more open and competitive markets, and would continue to be sympathetic to sectors in need of help to adjust. We are not rigid or dogmatic … But now is not the time to cut ourselves off.²

Nevertheless, concern has been expressed over recent Government decisions to:

• freeze PMV and TCF tariffs for five years from the year 2000
• reinstate bounties for the shipbuilding and printing industries (following the announced abolition of these bounties in the 1996 Budget)
• endorse the findings of the Mortimer report and pursue a more interventionist policy as outlined in the Prime Minister's Investing for Growth statement, and
• place greater emphasis on the principle of reciprocity in reviews of Australia's trade barriers.

The WTO Secretariat noted in regard to the tariff freeze for PMV and TCF that 'the Government may be providing the wrong signal to these two industries and to the manufacturing sector in general'.³

There are also emerging protection pressures on the international front as outlined on pages 34 and 35 of this paper. These could have a significant impact on the Australian policy stance. Of particular importance will be the progress of the APEC group towards their stated free trade targets and the outcome of the next round of WTO global trade negotiations which are due to be launched in Seattle in late 1999.

Industry policy is usually used to pursue a range of objectives, including at times conflicting objectives. While growth and employment in the assisted industry may be the prime objective, many non-economic objectives such as adjustment costs, regional development, defence and a range of social and environmental objectives are usually considered in setting industry policy parameters.

The rationale for, and the form of, government intervention in industry policy has changed significantly over time. Freedman and Stonecash identify three phases of industry policy:
Over fifty years, the consensus of policy makers in most Western economies shifted from belief in the efficacy of interventionist policy to the view that government's role is to facilitate the operation of market forces. Three phases of government's role can be defined in these fifty years of policy shifts: direct involvement in allocation decisions (over-ruling the market); correcting market failures (externality justifications); and setting the right environment to allow markets to work (laissez-faire).  

The Industry Commission has identified the following five types of industry policy: tailor-made protection, special industry plans, investment attraction, matching other countries and concentration on fundamentals. The above five policy approaches are not mutually exclusive and all have been used to some degree at different times in Australia's industry policy. However the classification is useful to illustrate changes in the basic emphasis of industry policy over time and between countries.

The first has been the historical approach in Australian manufacturing—to protect individual industry segments on a needs basis using tariffs or quotas. It is now widely acknowledged that this is not an appropriate policy for Australian manufacturing in today's economic environment (see below arguments for and against protection).

Special industry plans were widely used by the Hawke/Keating governments to tackle major structural problems in certain industries and such plans remain central to current policies for PMV, TCF and pharmaceutical products. Such plans can only be judged on a case-by-case basis as to whether the restructuring sought is being achieved and whether this is occurring in a cost-effective manner.

The direction of industry policy towards attracting new investment and matching the incentives provided by other countries has many supporters and has induced policy responses from both State and Commonwealth governments. Many see this as a necessary response to the increased globalisation of industry investment funds—so-called 'foot-loose capital'—and argue the need for government intervention to ensure Australia is competitive in the market for such capital. Opponents note that such policies have all the problems of picking winners—of selecting which investments should be assisted and which should not and which countries should Australia seek to emulate in terms of industry incentives. Different aspects of this issue, and its application in an Australian context, are examined below.

The approach favoured by the Industry Commission is to concentrate on the fundamentals which it indicated should be:

- a stable macroeconomic environment with stable growth, low inflation, fiscal prudence and steady monetary policy;
- secure property rights, providing the essential foundation for social cohesion and investment;
well-judged regulation, which balances costs and benefits;

productive labour market policies, allowing mutually beneficial workplace relations with an adequate safety net, and a first-class education and training system where students, trainees and employees can express their choices;

government services, provided efficiently, with maximum use of market instruments to improve outcomes, including a strong health and social security system;

government intervention to address market failures where it is warranted, especially to encourage research and development;

an efficient, broad-based tax system;

world-class economic infrastructure which will depend on the implementation of the competition policy reforms.6

The Commission emphasises how much harder and more uncertain the economic environment would be without these fundamentals in place, and how important they are in any competition for investment.

Australia's Current Industry Policy Mix

The Current Industry Assistance Package

Total assistance to the Australian manufacturing sector in the year 2000–01 is estimated to be $3.3 billion in terms of net subsidy equivalent. This corresponds to an average effective rate of assistance of five per cent.7

In historical terms, the average level of assistance to manufacturing is at a very low level. For example, in 1970–71 the net subsidy equivalent was $14.2 billion and the average effective rate 35 per cent. In 1989–90, the corresponding figures were $10.2 billion and 17 per cent.

In interpreting the significance of the current level of assistance to manufacturing, two key aspects need to be kept in mind. First as noted below, most developed countries have achieved broadly comparable low average levels of assistance for their manufacturing sectors and most developing countries are in the process of rapidly reducing barriers to trade in manufactures. Secondly, there is strong concern about distortions in the industry assistance package created by the wide inter-industry dispersion in tariff rates. The main dispersion stems from the high tariff rates prevailing for clothing and footwear (34 per cent effective in 2000–01), motor vehicles (19 per cent) and textiles (17 per cent).
At the low end of the tariff spectrum, there is a wide range of tariffs of five per cent or less. Minister for Industry, Science and Resources, Senator Nick Minchin, announced on 1 July 1999 a Productivity Commission review of 2300 items in this category, describing them as ‘nuisance’ tariffs. These include the three per cent tariff on business inputs imposed by the Government in its 1996 Budget as a means of combating the deficit. The Minister announced that the nuisance tariffs would be removed in the context of upcoming trade negotiations in the WTO. The removal of these low tariffs could cost the Commonwealth up to $400 million a year in revenue foregone.

Non-tariff trade barriers, such as import quotas and restrictions, have over time been largely eliminated and tariffs have become increasingly important as the main means of assistance to Australian manufacturing. Non-tariff assistance to manufacturing, however, continues to be provided through the Budget, in the form of bounties on the outputs of select industries and tax concessions on R&D and other inputs.

The 1999–2000 Budget provided for the Department of Industry, Science and Resources to administer appropriations of $445 million to improve the performance of Australia's manufacturing, resources and services sectors. The Department also received an appropriation of $340 million to enhance the benefits of Australia's science and innovation systems.

Allocations through the Budget, however, represent a very small and declining share of total assistance to manufacturing. The Industry Commission estimates that tariffs accounted for over 80 per cent of measured assistance to manufactured outputs in 1983–84, over 90 per cent in 1989–90 and this trend was expected to continue to 2000–01. Further information on historical trends in tariff and budgetary assistance to manufacturing is provided in a forthcoming IRS Research Paper.

The Coalition Industry Policy Statement in 1996

The recent approach to industry policy needs to be understood from the perspective of the Federal Liberal/National Coalition industry and commerce policy platform launched prior to the March 1996 election. This advocated fine tuning a number of existing policies and better integration of their delivery but few if any major changes in the composition and direction of industry policy.

The 1996 Policy Statement announced a more proactive approach to both trade and industry policies.

… The Commonwealth Government must work in partnership with industry to overcome areas of market failure and promote more dynamic economic growth. If this partnership is to work, government programs need to be accessible and readily understood by industry.
The Coalition's approach to industry policy is based on an understanding of the role of government in overcoming market failure and of its need to act as a catalyst in the continual process of structural adjustment. While the bulk of assistance will be provided to eligible enterprises across a wide range of manufacturing and service industries, the Coalition acknowledges that there is also a continuing role for appropriately targeted sectoral assistance.12

With respect to tariffs, the Coalition made a firm commitment to maintain the existing schedule for tariff reductions to the year 2000. Its attitude to tariff changes beyond 2000 was less clear. It stated:

Beyond this (i.e. 2000), further tariff reductions, consistent with the APEC objective of complete trade liberalisation by the year 2010, will proceed in step with other key elements of the Coalition's comprehensive program of microeconomic reform; and

There is no doubt that as tariffs are lowered around the world Australian industry will reap the benefit of lower input costs at home and greater market access abroad. However, the full benefits of trade liberalisation can only be realised when all countries cooperate in this process. Unfortunately this has not always been the case.13

The latter qualification is important. It suggests that the Government, in considering tariff cuts beyond 2000, will place some emphasis on reciprocity—that is, on gaining trade concessions from others as a condition for further trade liberalisation by Australia. Reciprocity was an important element of Australia's trade policy in earlier years but from the mid 1980s onwards, there appears to have been support from both sides of politics for what is termed 'the primacy of domestic transparency'. This advocates that tariff cuts should be assessed primarily in terms of their impact on local industry and the local economy, and that tariff policy be seen more as an integral part of domestic economic management.

A recent major history of Australia's trade policy remarked on the return to reciprocity and pointed out the view that 'one's own trade liberalisation is a concession granted to others', long-refuted by economists, once again appears prominently in the trade policy rhetoric.14 With respect to non-tariff policies, the Coalition Platform gave a commitment to continue assistance programs, with some amendments, to the PMV, TCF and pharmaceutical industries. It also supported the continuation of a number of general industry assistance measures to facilitate enterprise development, exports and R&D.

Most of the general assistance and some industry specific programs were curtailed significantly as part of the major expenditure cuts announced in the Government's first Budget in August 1996. It announced:

• reduction in the R&D tax concession from 150 to 125 per cent
• abolition of concessions for R&D syndicates and its replacement with the Strategic Assistance for Research and Development program
cut backs in funding for Export Development Schemes and Export and Trade Promotion

abolition of the payment of bounties to shipbuilding, printing and computers, and

a new less costly assistance program for the pharmaceutical industry.

The forward estimates at that time indicated an expected decline in Budget outlays to the Manufacturing sector (excluding tax concessions) from $556 million in 1996–97 to $220 million in 1999–2000. Changes to the format used in the Budget Papers does not allow a direct comparison but the indications are that Budget outlays for Manufacturing assistance have declined but not to the extent envisaged in 1996.

The Government has made a number of important commitments to industry policy changes in the post 2000 period. These have been made in the context of Australia's APEC commitments; the reviews of sector assistance for the PMV, TCF and information industries; and the decision to provide additional support for investment promotion. These commitments are examined below, following a brief review of what changes to industry policy are being sought by industry representatives.

Current Calls for New or Increased Industry Assistance

In the current climate of difficult trading conditions, there have been renewed calls, particularly from business interests, for government/industry cooperation in formulating and implementing industry policy. These form part of a broader push for increased government leadership and intervention, for greater selectivity and planning activity in industry policies and for greater use of incentive payments to promote investment, R&D, exports, market access and labour training.

It is noted that in the current debate there is less emphasis on the protection of Australian jobs and more emphasis on the role of government in attracting investment, particularly foreign investment, to Australian industry. It is argued that in an increasingly global economy, there is a need to develop strategic partnerships between government and Australian industry to attract foreign investment to Australia and also to promote our competitiveness in global markets.

The above focus is very evident in two major industry policy reviews which were commissioned by the present Government and released in mid-1997. The first public inquiry was undertaken by a committee chaired by David Mortimer, the Chairman and Chief Executive of TNT Asia Pacific Region. Its June 1997 Report is titled *Going for Growth: Business Programs for Investment, Innovation and Export, Review of Business Programs* (the Mortimer Report).
The second inquiry was that by the Information Industries Taskforce chaired by Professor Goldsworthy of Bond University. Its report *The Global Information Economy: The Way Ahead* was released by the Government in August 1997.

Both inquiries advocate an increased level of Government intervention and a more targeted approach to the provision of positive assistance measures to promote a higher level of growth in Australian industry. They both recommend:

- investment subsidies and other measures to attract international investors to Australian industry
- greater incentives for private research and development and innovation
- greater export incentives, and
- increased Government and industry involvement in industry specific planning.

Mortimer observes that business is calling for a vision and recommends that 'the government adopt a whole of government industry policy'. However he provides little guidance as to how or what this might entail other than his recommendation that the current vast array of business support measures be consolidated into five key programs, namely investment, innovation, exports, business competitiveness and sustainable resource management.

Another important Mortimer Report recommendation calls for 'action agendas' to be developed jointly by industry and government using the Supermarket to Asia as a model 'action agenda'.

A review of these two reports is available in IRS *Current Issues Brief no. 4*, 1997–98. The author, David Richardson, includes an interesting commentary on the philosophical differences in the approach to industry policy taken by businessmen such as Mortimer compared with that taken by say the Industry Commission and many other economists. He notes that:

Mortimer is more inclined to use language such as 'wealth creation' and 'boosting investment' rather than 'increasing efficiency' and 'overcoming market imperfections' which are the catch cry of neo-classical economists.

There is also a view in Mortimer and the other reports that investment begets investment. Or perhaps 'business begets business' is a better description. It seems to be a reasonable view in business circles that new business activities create new opportunities for others, spread confidence and in other ways induce even more activity. Indeed, Mortimer's proposed investment incentives should be designed to attract projects 'that will provide the largest spillover benefits to the Australian economy'.
Richardson notes that there is a strong sense in the Mortimer and Goldsworthy Reports that government intervention to encourage higher investment can build a self-sustaining growth momentum. He argues that *cumulative causation mechanisms* could be advanced to give some theoretical justification for government intervention in areas where inducing greater activity generates its own momentum and economic performance involves a process of cumulative causation. This process seems most likely to occur where externalities and spillovers, economies of scale and learning curve economies are important as sources of technological advance and productivity growth.

The Government has endorsed the general thrust of the Mortimer and Goldsworthy reports in its Plan for Australian Industry titled *Investing for Growth* issued in December 1997. It has established a new agency Invest Australia and specified criteria for investment assistance to industry but only in particular limited and special circumstances.

It is important to recognise that there is an old and a new version of this push for increased government/industry cooperation. In the 1970s, the main examples of cooperative programs were the industry plans for the PMV and TCF industries. These were mainly targeted at restructuring highly protected industries to achieve smaller, better structured and more efficient industries which could compete at much lower levels of protection.

Advocates of more government intervention today via the development of cooperative action agendas for selected industries appear to have in mind mainly newer industries, facing strong consumer demand growth and/or good export prospects. The argument for government intervention is largely an infant industry one, namely that these industries face significant establishment costs in terms of their requirements for technology, skilled labour, venture capital and market access. One supportive argument is that externalities and market failures are more likely to occur in those industries requiring strong inputs of new technologies and risk capital and access to new markets.

It is also argued that the governments of many Asian countries have undertaken a much more active role in directing the course of industry development and that Australia needs to do likewise if it is to achieve the higher growth rates in manufacturing enjoyed by these countries.

This argument needs to be treated with care. While Australian policy makers can learn from other countries’ experiences, we cannot abdicate responsibility for decisions on how to employ Australian resources to best achieve our economic, social and environmental goals. Also it is worth keeping in mind that the level of government intervention in industry varies greatly between the Asian countries with strong manufacturing sectors. Two of the leading nations, Singapore and Hong Kong have very low levels of government intervention and others like Japan and Taiwan have moved some distance to liberalising their business environments.

A further argument is that government intervention may be needed to allow a group of enterprises to reach some critical mass where they can stand alone and flourish.
Commentators have pointed to the importance of linkages and networking between enterprises and of creating a friendly competitive environment in the generation of innovation and continuous improvement at the enterprise level. For areas with rapidly evolving technologies such as electronics and telecommunications, it is argued that these industries can provide major spill overs for the rest of the economy. Attention is drawn to the success of Silicon Valley in California and the Italian Industrial Districts as examples of success leading to success in large business networks which are heavily reliant on innovation and design.

A different argument is that increased government intervention is required to counter the perceived adverse impacts of globalisation and freer trade on wages, environmental regulation, aspects of consumer protection and even food safety. People worry that globalisation involves the increasing influence of multinational companies, and world regulatory agencies, and that this is associated with an abrogation by national governments of their responsibilities for protecting the interests of their people. Some see a role for a stronger national, or even international, body to protect consumer interests in these areas. For example, with respect to trade in forest products, the need for a regulatory authority to ensure that environmental costs are being reflected in the traded prices for forest products.

**Government Response to Mortimer Review and Related Industry Inquiries**

With the current much lower levels of tariffs, and greater certainty as to future tariff changes, it is anticipated that the industry policy issues facing governments will increasingly focus on what may be loosely termed positive, or general, assistance measures. The main categories of assistance in this group are:

- investment incentives/subsidies
- R&D, technology assistance
- incentives to better management, best practice, labour training, vocational training, relocation programs
- trade policies e.g. market access, export assistance
- tax reform, and
- small business.

The greater focus on the above positive measures is very evident in the Mortimer and Goldsworthy Reports. They both advocated an increased level of Government intervention and a more targeted approach to the provision of positive assistance measures to promote a higher level of growth in Australian industry. They both recommend investment incentives...
to attract international investors to Australian industry, greater incentives for R&D and exports and increased Government and industry involvement in industry specific planning.

Many of the broad industry policy changes proposed by the Mortimer and related inquiries have been adopted by the Government and are covered by specific measures announced in December 1997 in *Investing For Growth The Howard Government's Plan For Australian Industry*. This package of measures provided for increased spending on industry assistance of $1263 million over the five years 1997–98 to 2001–02, with the major part of this spending occurring in the last two years of the program. The main recipients of increased funding were the R&D Start program, Export Market Development Grants, the Innovation Investment Fund (for venture capital), technology diffusion and the establishment of Invest Australia (to market Australia as an investment location).

A major proposal by Mortimer was to establish a program of investment incentives with a funding of $1 billion over five years. Mortimer proposed this investment fund be used to encourage particular investment projects that will provide the largest spill over benefits to the community and which would not proceed in Australia without the incentives provided by this initiative.

The Prime Minister responded to this proposal in his *Investing for Growth* statement:

> the Government is not disposed towards providing across the board investment incentives or establishing a dedicated fund for that purpose. The Government will, however, consider the provision, in limited and special circumstances, of investment incentives for eligible projects which would not otherwise come to Australia and from which a significant net economic and employment is expected to result.

While not accepting the Mortimer recommendation for a major investment fund, the Government did take a number of initiatives to promote investment in Australian industry and major projects. The administrative framework for the new investment incentives was provided by:

- the appointment in December 1997 of businessman Mr Bob Mansfield as the Prime Minister's Strategic Investment Coordinator. His charter is to advise Cabinet, through the Prime Minister, on the possible use of incentives for strategic investment projects, and on modifications to existing policies to increase Australia's attractiveness as an investment location, and

- the establishment of Invest Australia, located in the Department of Industry, Science and Resources, as the Australian Government's national investment agency.

Invest Australia works closely with the Strategic Investment Coordinator. Their two main areas of responsibility are to provide:

- a major projects facilitation (MPF) service to assist companies through government approval processes for projects with a total capital expenditure of over $50 million, and
to advise the Commonwealth Government on the possible use of incentives for strategic investment projects.

Invest Australia is currently facilitating some 38 projects through its MPF service. Many of these fall within the resources and energy sectors. If all proceed, these will collectively involve investment of some $54 billion and more than 14,000 permanent jobs.\(^{15}\)

The Government has stated that incentives for major investment projects only will be considered in limited and special circumstances and that each project will be assessed on a case by case basis, according to a published set of eligibility criteria. There has been a lot of speculation in the press about major projects in the development pipeline which may be in line to receive these special investment incentives but to date only two projects has been nominated. These are to Visy Industries at Tumut, NSW for a pulp mill and the proposed Comalco alumina refinery at Gladestone, Queensland.

The assistance package to the Visy pulp mill is valued at $40 million. Around $25 million will be funded from existing Government programs—the Government's Roads of National Importance Scheme, Infrastructure Borrowing Tax Offset Scheme and Regional Assistance Program. The remaining $15 million will be provided through a direct cash grant. Industry Minister Minchin noted that the Tumut project, which involves a major capital investment of $450 million, will provide significant benefits for the local area.

Comalco Aluminium Ltd is proposing to develop a world class alumina refinery and two sites, Gladestone, Queensland and Bintula, Malaysia, are currently under consideration. On 28 January 1999, the Prime Minister announced that the Government is prepared to provide financial support exceeding $100 million to enable the project to proceed in Australia. The project will involve an investment of $3 billion in current prices and involve three stages of construction. It would provide major employment and export revenue and have important implications for electricity generation and use in Queensland.\(^{16}\)

Another important Mortimer recommendation calls for 'action agendas' to be developed for specified industries. These would be joint initiatives by industry and government, using the Supermarket to Asia program as a model. The aim would be to examine current performance with respect to exports, R&D and other characteristics so as to identify impediments to growth, the availability of skilled labour, regulatory and other issues. Following this review, industry and government would commit to an action agenda designed to improve industry performance, with responsibilities for specific actions shared between the parties.

The Supermarket to Asia program is an interesting initiative and appears to have avoided many of the weaknesses inherent in earlier cooperative programs. It was established by the Government in September 1996 to assist the Australian food industry target expanding opportunities in Asia. The Government is providing a total of $14.5 million over three years to fund the program. A key provision of the initiative is the establishment of the
Prime Minister's Supermarket to Asia Council to provide strategic direction and leadership. The Council comprises the Prime Minister, four other senior Ministers and leaders from the farming, food processing, packaging, transport, research, trade union and retailing sectors. Through a number of working Groups, the Council developed an Action Plan which sets out a wide range of initiatives with timetables for industry and government implementation.

While the Supermarket to Asia program has been well received by industry, it may be difficult to duplicate for other industries due to its demands on government and industry leaders' time and the significant funding requirement.

All the industry specific measures of assistance, whether it be in the form of tariffs, subsidies, investment incentives or action agenda, involve government in the most difficult task of selecting which industries to assist. It involves 'picking winners' and identifying public benefits from industry assistance measures to justify the use of public funds for this purpose.

Both the current Government, and the Opposition, listed a selection of industries for which action agendas (in Coalition terminology) or Strategic Action Plans (in Labor terminology) should be developed. While 'picking winners' may be too strong a term, it is clear that there is bipartisan support for some selectivity in industry policy, that is, for identifying certain industries as more deserving of government/industry support than others. The criteria for the selection of industries for special treatment are far from clear. In August 1997, Prime Minister Howard stated:

The Government is, however, determined to pursue action agendas for emerging industries along the lines of our 'Supermarket to Asia' initiative. The Mortimer Report identified telecommunications, resource processing and tourism. I would like to add information technology/online services and the financial services industry. Some of these sectors will be the subject of decisions over the next few months which will accelerate their development. This is not picking winners—it is facilitating the emergence of new areas of competitive advantage.17

In December 1997, the Government in its Investing for Growth statement, stated:

Action agendas are aimed at clarifying the balance of responsibilities between government and business and at enabling both parties to pursue the removal of impediments to growth.

Action agendas will provide opportunities for industry representatives to communicate and consider best practice, tackle sectoral priorities and plan for the future. Already the Supermarket to Asia initiative in the agri-food sector is highlighting the benefits that can be achieved using action agendas.18

The current (August 1999) situation with action agendas is as follows:
action agendas are being implemented for the automotive, tourism, information, digital broadcasting, food and building and construction industries

action agendas are being developed for the TCF, downstream petroleum products, printing, liquified natural gas, furnishing and biotechnology industries, and

action agendas are at an early stage of development for emerging and renewable energy, sport and recreation, heavy engineering and infrastructure, chemicals and plastics and forest and wood products. 

Several aspects of above list of current and planned Government action agendas are worthy of note. The list extends far beyond just manufacturing activities to include a wide range of service and resource industries and covers a wide spectrum of both old established as well as new emerging industries. To some extent, the Government is avoiding the issues associated with 'picking winners' by including nearly all industries for which there is a significant level of Government intervention in the Action Agenda program.

The Australian Labor Party in its 1998 Election industry statement titled Creating Jobs; Building the Nation: Labor's Industry Policy for The New Century provides a commitment of $75 million a year to Strategic Action Plans. These will typically be five year plans, involving industries and government working in partnership. The Plans will tailor existing general industry development programs, and the funds from this program, to the requirements of particular industries. Plans will be developed initially for the steel and metal fabrication and wood and paper industries but Labor has also identified the following industries where Strategic Action Plans could be developed: food processing, pharmaceutical, biotechnology, medical and scientific instruments, information technology (including software), telecommunications, metal production and fabrication, advanced manufacturing technology, shipbuilding, resource processing (including wood and paper products), building and construction, and environmental technology.

This long list highlights the problem in trying to select 'key industries' for special attention in Australian industry policy. In the absence of sound economic or social reasons for special treatment, there is a tendency for the list of industries to expand to cover most of the manufacturing sector (and some services in this case). If PMV and TCF, which already have Action Plans, are added to the above list, nearly all major areas of manufacturing have been nominated for Strategic Action Plans. Moreover, there are no obvious reasons for the few exclusions from the list such as chemicals, plastics and rubber products.

The risks for government in selecting very few segments of industry for special attention, and past experience with such policies, is outlined below. Today's government is clearly very aware of these risks. Budget stringency is now a very important determinant of industry policy actions.

The compromise is essentially a three pronged approach to industry policy:
Industry Policy in Australia

- large assistance measures, via tariffs and/or budget outlays, for the perennial 'assisted' Australian manufactured industries, namely TCF, PMV, pharmaceutical, books and shipbuilding, but with quid pro quo arrangements for major structural change in these industries.

- action agendas for most other industries, using where possible the existing facilities of Government, and generally involving a low level of direct assistance to specific industries, and

- selective assistance to a few firms/projects to induce investment in Australia rather than elsewhere, but with a tight case-by-case control on the selection process.

Post–2000 Industry Policy Commitments

Business interests have urged governments to make longer-term commitments to industry policy strategies to reduce uncertainty and help them plan ahead. The Government now specifies a timeframe for most of its industry policies and this provides a guide, although no guarantee, as to the future direction of policy. The key indicators of the direction of industry policy in the next millennium are:

- Australia's commitment under APEC to implement free trade by the year 2010, although there are important reciprocal conditions attached to this commitment that are discussed in the next section.

- the Government's firm commitment to freeze tariffs for PMV and TCF for five years from 2000 and to implement specified further tariff reductions for these industries in the year 2005, and

- significant new or increased industry assistance items outlined in the Forward Estimates in the 1998–99 Budget.

The main Budget items involving major outlays (or reduced receipts) after 2000 are:

- additional funding for R&D and other innovation programs, with outlays expected to rise from $43 million in 1998–99 to $260 million in 2001–02.

- introduction of the Automotive Competitiveness and Investment Scheme in January 2001, with outlays over its five year life capped at $2000 million, and

- the establishment of Invest Australia and additional funding for investment promotion, coordination and facilitation.

In summary, current indications are that the post–2000 period will witness continuing pressures to phase out tariff protection, with the main changes occurring in the 2005–10
period. At the same time, assistance to manufacturing industry via the Budget appears likely to increase, at least in the early part of this period, due to the existing policy commitments noted above. The Government also may incur additional outlays to assist industry to adjust to the GST reform package and the adjustments to business taxation expected to flow from the Ralph Review of Business Taxation. In the medium to longer term, the state of the budget surplus/deficit is likely to continue to be an important determinant of the level of industry assistance via the budget and hence a source of uncertainty for assisted local producers.

### Australia's APEC Commitment

Australia has made a major commitment to trade liberalisation through its membership of APEC. In 1994, APEC members agreed on a goal of free trade and investment by 2010 (for developed countries) and 2020 (for developing countries). It is important to recognise both the importance to Australia, and the limitations, of this bold regional commitment. Importantly, members of APEC are the major sources of the imports that compete with the products of Australia's most highly protected manufacturing activities, namely PMV and TCF.

The APEC commitments to free trade constitute formal statements of intent by the region's leaders but these commitments are not in themselves legally binding on the APEC governments and they are not backed by any power to impose sanctions for non-compliance. In this respect, APEC differs from the WTO where the Uruguay Round Agreements are legally binding and sanctions can be imposed. Also APEC works on the basis of unilateral concessions rather than the WTO approach of negotiating reciprocal benefits between member countries. The APEC Ministers have made it clear that commitment to the WTO trade liberalisation program is an integral part of the APEC arrangements, which are seen as a supplement to the WTO program not a substitute for it.

APEC has agreed on an Action Agenda and a set of principles for the achievement of the free trade goals. Each country has been required to submit a comprehensive action plan which incorporates trade and investment liberalisation measures projected for implementation in the short to medium term and broad planning measures for the longer term. Australia submitted its Individual Action Plan in November 1996. This Plan was wide ranging covering broad commitments in the areas of tariffs, non-tariff measures, services, investment, standards and conformance, customs, intellectual property rights and other areas. However it did not contain any new (i.e. not previously announced) measures to reduce trade barriers on manufactures.

The meeting of our commitments under the Action Plan will involve some costs to Australia but it is expected that the benefits to be gained through trade liberalisation in APEC will far outweigh the costs. It was estimated in 1995 that the move to free trade in
the region would increase Australia's real income by 6.8 per cent and could be expected to
generate about 500 000 new jobs.21

The Asian financial crisis and marked slowdown in economic growth has provided a test
of the robustness of the APEC arrangement. In November 1997, the APEC ministerial
meeting in Vancouver, agreed to fast-track liberalisation in nine key sectors. However a
year later at the corresponding meeting in Kuala Lumpur, agreement could not be reached
on the fast track proposals (with Japan the major dissenter) and APEC Ministers referred
all nine sectors to the WTO. Trade Minister Fischer described this referral to WTO 'as a
'second best' way forward, but said it was still forward and heading in the right
direction'.22

Related Economic Policies

There are significant grey areas between industry policy and a wide range of other
economic policies that can have significant impacts on the allocation of resources and the
industrial structure. Conversely, industry policies have been used, particularly in the early
stages of industrial growth, to achieve macroeconomic objectives of strong growth based
on large migrant and foreign investment intakes.

This section briefly lists these related economic policy areas and points to some key areas
of overlap. It is important to appreciate that in some circumstances, alternative economic
policies may be able to achieve the same objectives as industry policy without having the
same adverse impacts on resource allocation and firm efficiency. We first turn to taxation.

Certain taxes such as payroll, stamp duty, customs duties for revenue purposes, and taxes
on business inputs such as fuel and software are all seen as 'taxes on business', with a
particularly adverse impact on exporters. The company tax rate in Australia, currently at
36 per cent, is higher than that imposed by many of our trading partners. The current
capital gains tax regime is seen as a barrier to the inflow of foreign venture capital funds.

Business taxation is the subject of a separate review which is close to completion. The
main issues under review are:

• reduction in the company tax rate but at the expense of some reduction in business tax
  concessions such as accelerated depreciation

• taxation of trusts as companies

• review of capital gains taxation, and

• reduction/abolition of certain State taxes on business.
These major tax reforms will impose some significant transitional compliance costs on Australian industry but in the medium to long term, the reforms should yield substantial benefits in the form of a lower, more equitable and more transparent tax regime applying to local industry.

Education and training are also critical policy areas affecting industry's interests. Many business sector interests see the current education and training system as not adequately meeting their requirements for labour skills. This applies to both vocational and management training skills. Later in this paper, it is argued that there appears to be a need to better integrate education and training into an industry policy framework and that this aspect should be granted a much higher priority by both governments and industry.

Expenditure on transport, communications, power and other infrastructure is frequently used by governments, in particular the State governments, to attract resources to certain industries and industries to certain locations. It can be used to attract new industries or to persuade existing firms not to close or relo cate. The pressure on governments to make major infrastructure outlays is related to the size of the project, the expected spin-off benefits for the region and the competition from other regions for the project.

A major issue of recent decades has been the microeconomic reform agenda. One major part of the micro-economic reform agenda has been actions to increase efficiency, and reduce costs to users, for what were predominantly public sector services including water supply, electricity and gas generation and distribution, roads, rail, ports and airports and telecommunication services. A second major aspect of microeconomic reform is aimed at labour market improvements. The previous Labor government emphasised wage/productivity agreements and greater training and skills development. The present Government has led the way to a less centralised wage system and greater emphasis on individual employer-employee workplace agreements. Benefits are expected in terms of greater flexibility, award simplification, better matching of supply and demand for specific skills and stronger productivity growth in the longer term.

Trade policy, at least with respect to manufactures, appears almost synonymous with industry policy as industry policy has relied so heavily on tariffs and other trade barriers as its major policy tools. However, there are important differences. A dominant focus of Australia's trade policy has been to expand access and negotiate returns in Australia's export markets and this placed the key focus on agricultural and mineral exports rather than manufactures. Also the main forum for trade liberalisation in an industry policy setting has been the unilateral reduction in trade barriers on an industry-by-industry basis following public inquiries by the Tariff Board and its successors. By contrast, the main component of trade policy has been Australia's commitment to the multinational trade negotiations through general agreement on tarriffs and trade (GATT). In the Multilateral Trade Negotiations, access to the Australian market for manufactures was tabled as a concession, but such actions were widely accepted as yielding a net benefit to Australia.
As the level of protection afforded Australian manufacturing has declined, and our exports of elaborately transformed manufactures increased, trade negotiations for access to manufacturing export markets have become increasingly important. This has tended to draw industry and trade policies together and the major industry assistance packages which apply today to TCF, PMV and pharmaceutical products contain both tariff protection/by-law concession measures and also export facilitation/market access measures.

Competition policy is the last main policy area to be considered here. Competition policy has a similar broad aim to trade liberalisation policy—both have the ultimate objective of encouraging a more effective and efficient employment of resources through increased market competition.

**Arguments for Industry Assistance**

Major shifts have occurred in the protection debate and it is convenient to distinguish between what may be termed the 'traditional' arguments for industry assistance and a set of 'new' arguments which are more relevant to current circumstances.

The 'traditional' arguments relate to economic growth, employment, protection against cheap foreign labour, infant industry arguments, balance of payments and defence/self sufficiency. The 'new' arguments are examined under the following headings:

- trade liberalisation in Australia has gone too far
- closer government–industry cooperation
- strategic trade policy, and
- nature of Government intervention.

The traditional arguments for granting assistance to manufacturing industry in Australia are essentially arguments about barrier protection rather than about industry policy in a broader sense. There is widespread agreement by all parties—industry and government representatives and economists—that the traditional arguments for barrier protection to promote economic growth, employment and foreign exchange savings have little validity in today's environment. These traditional arguments for barrier protection are discussed in a 1997 IRS paper *Free Trade or Protectionism? Australia's History and the Arguments For and Against*. With the growing recognition that Australia could not remain insulated from global competition behind tariff barriers, and the strengthening of the trade liberalisation movement, some commentators questioned whether this would leave any substantive role for industry policy to play. Such a policy vacuum has not occurred. Trade liberalisation has led to a re-examination of the role of industry policy in a broader context.
and new arguments for industry assistance and new roles for government have been proposed.

**Trade Liberalisation in Australia Has Gone Too Far**

A number of commentators have argued that this is the case and it is an argument with considerable popular support. This argument in its most basic form blames trade liberalisation for past closures of manufacturing industries and parts thereof, and for the associated loss of employment. It is frequently incorporated in a broader criticism of the role of economic rationalism in the economic advice provided to governments as industry consultant Martin Feil says:

> It is about time we stopped the spartan practice of exposing our companies on international trade hillsides and standing back to see whether they survive. The economic rationalists have introduced economic euthanasia in Australia and have culled out many valuable manufacturers employing many clever, useful and industrious people.\(^{23}\)

A more sophisticated case is put by Dr Stephen Bell of the University of Tasmania. He provides a more forward looking argument regarding the importance of the manufacturing sector and its links to the rest of the economy and the need to promote government–business cooperation to exploit these linkages:\(^{24}\)

> we need a replacement for economic rationalism: one sophisticated enough for the policy complexities we confront, and one sophisticated enough to grasp the synergy that can be generated by effective partnership between business and government …

> It is becoming clear that elaborate strategies of cooperation—between business and government, between business and research institutes, between labour and management, and also between firms—are just as important as competition in propelling successful forms of capitalism.

Dr Bell goes on to support a wide range of government interventions to tackle market failures in R&D, capital, labour and export markets, but also sector specific interventions. These include the promotion of synergistic industry networks, selective industry policies in areas where Australia is running large trade deficits and strategic assistance to help promote key areas of resource processing. He notes (rather hopefully) that the state must distance itself from industry rent-seekers, yet get close to the fine-grained needs of industry.

The question of whether trade liberalisation has gone too far or not far enough, and the scope for closer cooperation/partnerships between industry, government and other stakeholders, are central issues in the current industry policy debate.
Industry Policy in Australia

Closer Government/Industry Cooperation

Calls for the Government to play a greater role in facilitating cooperation between the various stakeholders in manufacturing industry have a long history in Australia and are frequently associated with calls for the formation of industry plans and industry action agendas. These proposals have been advocated from time to time by both sides of politics and also by both supporters and opponents of trade liberalisation.

For example, the development of industry plans by government/industry bodies was strongly advocated by the Jackson Committee in their 1975 Green Paper Policies for Development of Manufacturing Industry. These industry plans were seen as complementary to tariff reduction policies—as a mechanism for facilitating the adjustments in industry to a lower tariff environment. The Government responded with the establishment of the Australian Manufacturing Council in 1977. This was reconstituted in 1984 and eleven Industry Councils (each representing a specific industry or group of industries) were formed to advise the Minister on solutions and action plans for both industry and government to implement. These Councils all had government/industry/union membership. They undertook useful industry performance studies, often in a strengths, weaknesses, opportunities, threats (SWOT) format, but they were essentially advisory bodies with no authority to commit participants to action agendas.

The Labor Government also made a commitment to work with industry on major restructuring/assistance packages to several key industries but it chose to administer those packages through statutory authorities. The most famous examples were the authorities established to manage the Button Plans for steel, PMV and TCF. But these authorities played a very different role from the earlier Industry Councils with the former being responsible for major assistance packages comprising tariffs, by-law concessions, export incentives and structural adjustment assistance. These industry plans, and the statutory authorities responsible for them, have now been disbanded, with the TCF Development Authority being the last one to go in February 1996.

Strategic Trade Policy

During the 1980s, in particular, there were calls in many Western countries for increased government intervention to strategically target certain industries for development. In part, these calls were a response to anxiety about trade imbalances, the depressed state of manufacturing and the emergence of 'rust-belts' of traditional industries. New strategic trade theories were espoused by some as grounds for increased government intervention while others emphasised the limiting conditions applying to the theory and questioned its application to real world situations.

Strategic trade theory appears most applicable where there are few producers, substantial barriers to new entrants and scope for economies of scale. It is argued that in these
circumstances, there is scope for excess profits and the capture of these profits by one country at the expense of other competing countries is the objective of 'strategic trade policy'. This capture is achieved by subsidising domestic firms with a view to deterring investment and production by foreign firms and, if successful, by raising the profits of domestic firms by more than the subsidy paid.

The strategic trade argument is seen as particularly relevant to large scale, capital and technology intensive industries such as aircraft manufacture. But some supporters such as Clive Hamilton have advocated a much broader application to include smaller scale enterprises in Australia:

> According to strategic trade policy, governments can very effectively and directly influence the pattern of international specialisation and trade. They can do so especially by targeting industries which generate skills and knowledge.

> In a small country like Australia, industrial targeting will be more profitable if it is directed not at whole industries but at carefully selected niches. The aim is to become a big competitor within those niches.\(^25\)

Opponents of this approach have questioned whether any area of Australian manufacturing is likely to have the required dominance or uniqueness. The Industries Assistance Commission, for example, suggests that Australia is too small to pretend to world market domination and strategic trade theories provide no real guidance as to what to protect or how.\(^26\) Some other important concerns with the strategic trade approach have been identified. There are very real difficulties and risks in selecting which domestic activities to subsidise—the picking winners dilemma. Creating a strategic trade advantage for (and thus drawing resources to) one industry may create a strategic trade disadvantage for other industries, and the policy invites retaliation from competing countries.

**Nature of Government Intervention**

This is a large and sophisticated topic which we can only briefly embrace in this paper. However it would be an omission to not look at it because the effectiveness of industry policy depends not only the policy measures employed, i.e. tariffs, subsidies, infrastructure investment and regulations, but also on the way in which government approaches the task of formulating and administering industry policy.

Increasingly the new role for government is that of a facilitator. 'Government is more about intermediating between different interests and less about imposing majority will on an unwilling minority.'\(^27\) This new approach appears broadly consistent with the Mortimer Committee recommendation for 'action agendas' to be developed jointly by industry and government and the Government's calls for the Strategic Partnership of Government and Australian Industry.\(^28\) However there remain wide differences of view as to the nature of government intervention in industry policy.
Economists and Treasury officials generally favour restricting government intervention to arms-length policy measures which are of general application, that is, they do not involve government in the selection of the beneficiary firms or industries. They argue that ideally problems should be fixed at the source and hence that market failures or externalities in say the labour or capital market should be fixed as far as practicable in those markets. This minimal interventionist approach, it is argued, will lead to better resource allocation, more efficient use of resources and consequently stronger economic growth.

This may be the first best solution but there appear to be many areas where the responsibility for decision making in the primary market is so fragmented that the reforms needed by industry are not getting sufficient priority. Training is an example. Responsibility for training lies in a Commonwealth department that does not include the interests of the industry department. A major part of responsibility for the provision of training services lies with the States. Responsibility for apprenticeships and junior awards lies somewhere else. Where does the final responsibility lie for ensuring that industry gets access to world best practice training facilities?

With respect to actual mechanisms to achieve government-industry cooperation, past and current governments in Australia have advocated, and from time to time sought to implement, plans for closer cooperation in the form of industry plans or industry action agenda. Past experience suggests these initiatives often fall in one or other of the following camps. One is the establishment of advisory bodies which are industry dominated and tend to be long on wish lists for government intervention but short on genuine industry reforms. The other is the establishment of a statutory authority, or equivalent body, to implement a genuine industry reform or development package. The concern here is the dominant hand of government in the partnership and the tendency before too long for the plan to be referred to Treasury/Finance or an expenditure committee for drastic expenditure surgery.

The challenges in establishing such a cooperative body appear to be first to give it sufficient status to provide an effective voice for the industry and second to achieve a workable balanced allocation of responsibilities between the two parties.

A recent contributor to the Australian debate about the appropriate level of government intervention in economic matters is Fred Argy, former Director of the Economic Planning Advisory Commission (EPAC). In terms of overall economic policy, Argy argues that Australia is in danger of going too far down the path to radical, hard-line, free-market economic policies. He advocates an increased role for government and more attention to employment creation and distributional and adjustment aspects. Argy strongly argues that economic policy should give higher priority to social, quality of life and employment goals and less to Gross Domestic Product per head. He refers to the preferred policy approach as 'progressive liberalism'.

A more interventionist industry policy forms part of Argy's economic prescription. He says:
We should make a conscious decision as a nation to create our own comparative advantage in high skill, high wage industries. Industry policy will not do this on its own: it needs, for example, supportive labour market intervention. But industry policy can make an important contribution through R&D subsidies, by offering investment incentives in strategic knowledge intensive sectors with export growth potential, by improving access to export markets, and so on.  

Many commentators agree that Australia's industry policy needs to place more emphasis on fostering R&D, innovation and technological change. This has been given some theoretical backing in what is termed 'new growth theory'. Professor Peter Dawkins from Melbourne University notes that 'the state has an important role in subsidising education, for efficiency as well as equity reasons.' Similarly since there is likely to be under-investment in research, development and innovation, Dawkins believes the government should subsidise those activities, through e.g., tax concessions for R&D.

However the debate remains open as to how best government can contribute to technological change. While there is general support for some incentives to induce private firms to undertake more R&D, there is little to guide government as to the optimum size or coverage of such incentives. This reflects the great difficulty in quantifying the likely externalities from R&D activity. Also government subsidies are not the only way to stimulate private R&D. Professor Dawkins notes:

Further there is accumulating evidence that increasing the openness of an economy is as important as anything in fostering new knowledge and innovative activity. Most new knowledge comes from overseas, the more so the smaller the country. New knowledge can be embodied in traded goods, in foreign direct investment and in immigrants' skills.

Both the Government and the Opposition have stated their opposition to 'picking winners' but at the same time sought to retain the capacity to assist individual industries and even firms on a case by case basis. Both have called for closer government/industry cooperation through the development of action agendas/strategic action plans. These are targeted at joint action to identify impediments to industry development and the formulation of (hopefully) joint actions to overcome these impediments. Labor has advocated the more widespread application of the principle of reciprocity where industry would agree to meet certain production, investment, export and R&D targets in return for an agreed package of industry assistance.

One of the more controversial industry policies being pursued by the Government is that of providing investment incentives for the establishment of major projects. This policy is coordinated through the Office of the Strategic Investment Coordinator. As noted above, in the 20 months since this Office was established, only one project have been selected for assistance and a second one has been offered assistance.

There clearly are considerable risks to Government in this form of industry assistance. It does involve 'picking winners' and backing them with government funds, not only at the industry level but also at the firm level. If the project is threatened with failure at a later
date, there will be strong pressure on the Government to further assist. It will be extremely
difficult to draw the line between projects eligible for assistance and those which are not.
There have been many failures in similar State government policies aimed at attracting
major investment projects. The Government will need to assess these risks against the
prospective benefits from attracting new investment to major projects. One of the
important prospective benefits is that these assistance packages will facilitate
infrastructure and employment generation in the region in addition to the direct benefits to
the selected projects.

Arguments for Trade Liberalisation

Arguments for liberalising trade have been expressed in the 1997 IRS paper referred to
above. The following summarises the earlier arguments and draws attention to some
additional points that may be particularly apt to the present paper.

A More Competitive Manufacturing Sector

The strongest argument for trade liberalisation is a practical, as opposed to a theoretical,
one. Even as far back as 1975, the Jackson Committee identified consensus in moving
away from the existing tariff regime. It noted:

> it is widely accepted that the strategy of selective encouragement of import replacement
industries in Australia by the use of made-to-measure tariffs and import restrictions,
pursued from 1945 to the mid-sixties, has outrun its usefulness. The industrial structure
which resulted does not now present the best use of Australia’s resources. 32

Policies which support inward looking, self-sufficient, low trade economies have been
associated with lower economic growth reflecting lower investment, lower productivity, a
fragmented industrial base, less scale economies and lower entrepreneurial skills. Protection has not provided the claimed benefits in terms of economic growth, etc. over recent decades. Marks, Hettihewa and Sadeghi33 noted that in the protected industries, tariffs have provided a strong incentive to expand but created a disincentive to operate at
minimum cost. Multinationals have been encouraged to establish in the small domestic
market that prevented cost advantages from scale economies. The protective climate
contributed to the inability of firms to properly evaluate investment opportunities. This
source attributes the declining rate of growth of manufacturing during the 1960s and its
stagnation since the early 1970s to the lack of international competitiveness, the
protection-induced inefficiency, the shift in consumer demand in favour of services and to
the increasing uncertainty as to future government industry policy.

The theoretical argument is basically that protection is a tax which distorts the relative
prices of assisted and unassisted goods and imposes an arbitrary set of costs and benefits.
The benefits are in the form of higher incomes and production in the protected industries. These benefits tend to be less dispersed, of shorter duration and hence more visible than the costs.

Trends in the performance of Australian manufacturing industry are examined in a forthcoming IRS Research Paper. There is evidence that trade liberalisation policies over the past 20 years or so have been associated with a restructuring of the Australian manufacturing sector, greater specialisation, a stronger export orientation and an overall improvement in international competitiveness.

The improved export performance is reflected in a larger share of output traded and exports coming from a wider range of industries. This counters the common perception that freer trade would lead Australia to specialise in a narrow range of rural and mining industries which would leave us more vulnerable to fluctuations in world commodity markets. Increased trade appears to have been successful in creating the opportunities and the entrepreneurial will to pursue new products, new processes and new markets, at home and abroad. It has increased the capacity of Australian manufacturing to adjust to new market opportunities and also to new technology and management opportunities.

EPAC has produced a study\textsuperscript{34} that showed:

- as much as 80 per cent of Australia's below average performance between 1970 and 1989 resulted from our failure to match tariff reductions and accompanying economic reforms in other OECD countries for much of that period

- Australia's per capita income was around 8 per cent lower in 1990 than would have been the case under 'matching' policies. The study projects that if Australia follows OECD experience, it will conservatively increase GDP by around 15 per cent in the longer run, and

- the required reforms can take four years or more to begin to have a significant beneficial impact, and it may be as long as 20 years before the full benefits are realised.

**Risks in 'Picking Winners'**

There is a strong body of opinion that suggests governments should not be in the business of 'picking winners'. Winners may be industries or firms which are innovative, export oriented, internationally competitive and achieve strong growth and at the same time contribute to social and environmental goals. Clearly governments wish to facilitate the selection and growth of 'winners' but there is a wide band of opinion that the task of picking winners—and with it, the risk of making errors in trying to pick winners—should lie with the business sector and the market, especially where taxpayers' funds are involved. Supporters of this view believe that the role of government should be restricted to
Industry Policy in Australia

providing an economic and business environment that is conducive to the selection of winners.

The argument against 'picking winners' can be stated in terms of the risks of government failure associated with this approach, or alternatively in terms of some of the glaring failures which appear to have been associated with this approach in the past.

The corporate, financial and political failures that followed the 'corporatist' policies pursued by the Victorian, South Australian and Western Australian Governments in the 1980s are taken to illustrate the potential dangers of a large scale indulgence in 'picking winners'. In a survey of government in these three states in the 1980s, the authors note:

All three State governments in this period aimed to control their capital market and direct it towards the needs of State development as they saw it. … In effect, during this period Labor in all three States, while pursuing issues of social justice and the environment, became development junkies more so than their predecessors.35

The Victorian case illustrates the common theme. The Cain Government, which came to power in 1982, targeted the combination of public and private sector equity in joint ventures in preferred strong growth areas such as the Portland aluminium smelter. This involved greater government control of the State's capital market through State-owned financial institutions such as the Victorian Economic Development Corporation, the Victorian Investment Corporation and the State Bank of Victoria. It involved a more centralist and corporatist role for government and a decline in the role and independence of statutory authorities. It resulted in massive loans to the corporate 'high fliers' (and high risk takers) of the 1980s.

The failure of these policies was all too evident by the early 1990s. WA Inc had led to a series of financial disasters and political scandals. In Victoria, the Victorian Economic Development Corporation was virtually insolvent and the State Bank's subsidiary Tricontinental had accumulated debts of over $2.7 billion. South Australia was even worse off with the financial losses incurred exceeding $3 billion.36

The implications for future industry policy of the above failures is an open question. The above experiences may be seen primarily as part of the prevailing climate of financial recklessness in the 1980s when even State governments were caught up in speculative activities. Alternatively it may be seen as reflecting an ongoing weakness in governments' capacity to 'pick winners'.

Commonwealth industry policy has been strongly industry selective (with differential rates of assistance for different industries) but it could hardly be called one of 'picking winners'. It was more a policy of assisting 'losers' to sustain their operations under made-to-measure tariffs and in later years to undertake restructuring activities under the Button industry plans.
Finally it is recognised that there have been many arms to industry policy and it is very difficult to assess which have been successful and which have not. One apparent example of successful selective industry policy is that aimed at promoting exports of elaborately transformed manufactures (ETMs). A study by the Centre for Strategic Economic Studies at Victoria University concluded that the marked improvement in Australian ETM trading performance since 1985 reflected, among other factors, the impact of industry specific policies:

While the effects are difficult to quantify, there is clear evidence that many of the industry specific policies designed to boost the export orientation of various sectors have played an important part in the improved ETM trading performance.37

Current thinking appears to be that some selectivity in industry policy is appropriate and that the important thing is to avoid the excesses and carelessness involved with some past programs of ‘picking winners’.

Professor Garnaut of the Australian National University argues that more liberal trade policies can in themselves greatly negate the need for government to undertake the risks associated with picking winners. Put simply, his argument is that:

Strongly internationally-oriented policies, especially trade policies, invariably yield benefits for economic growth well in excess of the substantial gains anticipated by standard economic analysis.38

**Tariff Reductions Beyond the Year 2000—Are They Justified?**

Supporters of trade liberalisation may still need to consider the question of how low tariffs in Australia should go. The average level of effective protection for Australian manufacturing has been reduced from 36 per cent in 1970–71 to six per cent in 1996–97. By the year 2000, the highest tariffs will be 25 per cent for some TCF products, 15 per cent for PMV and five per cent or less for all other goods.

**Tariff Levels Overseas**

Figure 1 shows the movements in average tariff rates for manufacturing between 1988 and 1996 in a cross-section of OECD countries. Trends differed markedly between countries. In four countries—United States, Canada, Mexico and Norway—manufacturing tariffs rose over this period. But the OECD source39 notes that there was a particular reason for the rise in tariffs in these countries. This was the conversion of certain quantitative border measures to tariffs in the mid-1990s following the Uruguay Round, particularly for food, beverages and tobacco. Hence this increase in tariffs should not be interpreted as a reversal of the trade liberalisation movement.
In the European Union, Japan and Switzerland, small reductions were recorded with the largest reductions occurring in Australia and New Zealand. This outcome, of course, is influenced by the time period depicted. The United States and European Union countries have also been subject to major tariff cuts but with the main reductions occurring before 1988.

**Figure 1. Tariff(a) Movements in OECD Countries**

![Figure 1](image)

(a) Production-weighted average tariff rates.


Of particular note is the fact that in 1996, the latest year for which statistics are available, the average tariff rate on Australian manufacturing, at 4.8 per cent was comparable with that in the world's three major trading nations—the United States (5.4 per cent), European Union (7.7 per cent) and Japan (3.3 per cent).

A limitation to the above figures is that they refer to average tariffs and do not include protection provided through non-tariff barriers (NTBs). The OECD said 'there are concerns that NTBs may be gaining greater importance as a means of protecting domestic producers of goods and services and impeding access to international markets'. This is of particular concern to Australia which has a very low level of use of NTBs compared with the United States, European Union and Japan.

Figure 2 shows recent tariff reductions in some selected non-OECD countries, mainly in Asia. While marked reductions in average tariffs have occurred in these countries, current
tariff levels generally remain significantly higher than in Australia and most other OECD countries.

**Figure 2. Tariff Reductions in Select Non-OECD Economies**

Source: Department of Foreign Affairs and Trade, personal communication.

**Diminishing Benefits from Further Tariff Cuts**

The Productivity Commission has used the Monash model to quantify the economic impacts of the recommendations made in its major industry inquiries. There has been a lot of debate and uncertainty about the results of these modelling exercises, including disagreement between the users of different macroeconomic models. The debate was particularly pointed with respect to the draft recommendations of the Productivity Commission to lower PMV tariffs from the scheduled 15 per cent in 2000 to five per cent in 2004. At an economic modelling conference in Melbourne in June 1997, proponents of the Monash model, the Econtech (Murphy) model and Access Economics debated the outcomes of their models. It was noted:

While agreeing the economic benefits of further car-tariff cuts were small, the modellers differed strongly on the extent of disruption and dislocation the further 10 percentage point tariff cut would cause.  

---

31
A useful outcome of the modelling exercise is that it does demonstrate how the marginal benefit of tariff reductions will diminish as the tariff level is lowered. This is illustrated in an exercise undertaken for IRS by Chris Murphy of Econtech. The Murphy model indicates that under existing policy the reduction in car tariffs from 45 per cent in 1988 to 15 per cent in 2000 yielded a gross benefit of $567 million. A further reduction to five per cent would provide an additional gross gain of $95 million. Hence the latter one-third of the tariff cut would only generate one-sixth of the gain, reflecting the diminishing marginal benefit of tariff reductions. With allowance for the impact on the terms of trade and adjustment costs, the net benefit of the further reduction in car tariffs beyond 2000 is estimated at $33 million, equivalent to about $66 per car sold in Australia or $700 per car worker. The estimated increase in economic welfare, measured in consumption terms, is a mere 0.03 per cent.

Murphy notes that the above benefits need to be assessed in a broader industry policy context that takes into consideration adjustment costs, regional impacts, uncertainty in the investment climate and Australia's trade obligations. Overall he is concerned as to whether the estimated small benefits from further tariff cuts will be offset by possible labour and regional adjustment costs.

Implications of Broader Economic Policy Reforms

Critics of trade liberalisation often present this as a laissez-faire approach under which industry policy is largely dismantled and industry is left by government to the mercy of the market place. This is often far from the truth. Many of the ardent supporters of trade liberalisation such as the Productivity Commission and export groups have argued strongly for economic reforms, in areas such as training, R&D and the provision of infrastructure, which would require an increased role for government. But they stress that these reforms should be economy wide and not comprise selective and intrusive policies targeted at assisting specific sectors or industries within the economy.

The National Farmers' Federation, for example, has suggested this broader economic reform agenda should include:

• an approach to industry structure which does not single out particular industries for special treatment
• a commitment to ongoing microeconomic reform in all areas
• a world class tax system which minimises impediments to the efficient operation of business
• ongoing improvement of public infrastructure
• a commitment to education and training
• a more flexible industrial relations system
• a commitment to research and development
• a reduced user, friendly and transparent regulatory environment, which minimises business compliance costs
• a strong commitment to ongoing tariff reductions, and
• encouragement and enhancement of an economy wide export culture.  

Criticisms of these broader economic reform agenda frequently relate to the adjustment costs and the distribution of the costs and benefits associated with the reforms. In particular, some safety net or other control policies are advocated to protect certain sectoral, regional, socioeconomic or environmental interests that may be adversely affected. It is argued that government has a role to protect the less secure elements of society, for example, in terms of access to education and employment and protection from unfair competition, and that this role may involve some trade-offs between economic efficiency and social and environmental goals.

Recent Re-emergence of Protectionist Pressures

There have been a number of recent, well publicised incidents which have been interpreted in the press and elsewhere as indicative of a worldwide resurgence in protectionist pressures. These incidents include:

• the recent failure of APEC to reach agreement on a program to fast track trade liberalisation in nine key sectors
• increased protectionist pressures in the Unites States as indicated by recent action to curb steel imports, the quotas and tariffs imposed on lamb imports and the intensity of recent trade disputes between the United States and the European Union over apparently small issues such as bananas and hormone-treated beef
• the continuation of high Japanese barriers to rice and other food products and the extensive use of non-tariff barriers, and
• the sharp increase in anti-dumping actions worldwide.

Australia has not been immune from these pressures. Local industry has fought hard for temporary protection against pork imports, to maintain quarantine bans on poultry and salmon imports and is an active user of anti-dumping actions.
Another indicator of underlying protectionist pressures in Australia is provided by a survey of attitudes to free trade conducted by the Australian National University as part of its International Survey Program. The results indicate that the majority of the public interviewed in Australia do not support free trade, and the share that do support free trade in Australia is lower than in the United States and London and much lower than in Tokyo. The survey also found that the well-educated are much more supportive of free trade than others.44

A recent article in the Economist points to concerns about protectionist pressures in the United States. It points to the recent focus on regional initiatives such as the North American Free Trade agreement (NAFTA) and also the failure of President Clinton to get congressional support for 'fast-track' authority to negotiate trade treaties.45

The emphasis of the protection debate on United States actions should not be taken to imply that it is the only country facing, and responding in some form, to strong protectionist pressures. Rather it is the concern that the United States as the world's leader of the trade liberalisation movement to date, may undergo a change in attitude to free trade in the light of its large trade deficit problems. The Australian press reported that the United States (US) Treasury Secretary, at a briefing on United States barriers to lamb imports, indicated the White House has redefined America's commitment to free trade to that of 'free and fair trade'.46

However it is important to distinguish between fears of protectionism and aggregate movements in protection. As noted elsewhere, the long term trend in tariffs, and in non-tariff barriers, in most OECD countries has been downwards. But there is good reason to be concerned about current protectionist sentiments. The OECD Economic Outlook expresses concern that '[w]idening imbalances in current account positions across some of the major OECD economic areas have raised concerns about related increases in protectionist sentiments'.47

**Conclusions and Lessons for Future Policy**

**Trade Protection Policy**

The current industry policy debate appears to be dominated by two broad issues. The first is the future of tariff policy. While there is not support for a return to the high tariff levels of the 1960s and 1970s, there remains active debate as to the costs and benefits of continuing the tariff reduction program beyond 2000. Certain industry and regional interests point to the economic, social and regional costs associated with further cuts in tariff protection to the remaining highly protected industries, in particular the TCF and PMV industries. Others argue as to whether the major gains from trade liberalisation have
already been achieved or whether there are further potential gains from progressing down this path.

There is also debate about where Australia stands relative to its trading partners in terms of trade liberalisation. This aspect is clouded by current uncertainties on the global scene as to whether current trade squabbles between the United States, the European Union and Japan represent a halt or even a reversal of the strong movement to trade liberalisation which has prevailed. The recent failure of APEC members to agree on Action Plans for the road to free trade in specific areas has added to this uncertainty.

There can be little doubt that strong pressures will continue to be exerted by select industry lobby groups to halt or slow progress towards the dismantling of all tariff barriers. These pressures will be particularly intense in the industries with long histories of protection namely PMV and TCF, and to a lesser extent, printing and shipbuilding industries. And while there continue to be wide differences in the level of tariff assistance provided to different industries, there will always be both equity and economic grounds for complaint from the low and zero tariff industries.

The author's view is that the Government should more strongly confirm its APEC commitment to move to the removal of all import barriers by 2010. The best way to make this commitment would be in the form of a firm program of step by step actions to achieve this objective. In the absence of such a program, and a corresponding statement that the planned tariff cuts are not conditional on the implementation of reciprocal tariff cuts by our trading partners, Australian tariff policy could return to the case by case, ad hoc, short sighted decision making processes of the past. If the Government leaves this policy door open, the industry lobby groups will always find arguments, whether it be unfair competition from abroad or setbacks to domestic demand or production, to argue for selective assistance to meet their self interests.

As a small nation, Australia is more dependent on trade than its larger trading partners and our best growth prospects in trade are in the higher value added manufactures and services. We have to be internationally competitive and we need to win export market access for these goods and services. As such, Australia can benefit by being a leader, not a follower, on the road to free trade. The forthcoming WTO round of multilateral trade negotiations would allow Australia to take this action in a preferred multilateral forum.

Australian industry is seeking the development of a comprehensive industry policy structure. This needs to be such that it enables industry objectives to be met in a manner that is consistent with Australia's economic, social and environmental goals. The 'laissez faire' approach to industry policy practiced in the United States is not well suited to Australia's circumstances. Australia needs to build up a stronger and well coordinated program of positive actions to encourage the future development of internationally competitive industries.
Industry Policy

What will be the key characteristics of future industry policy. It has been suggested that there will not be a need for an industry policy and that industry's interests will be best met by governments pursuing appropriate macroeconomic and microeconomic policies to create a business environment in which industry can operate freely without government intervention. This appears to assume that the policies to create this desired business environment can be developed at arms' length from industry interests, and that there is no role for Government in coordinating functions, in particular, between education, research and infrastructure providers on the one hand and industry users on the other.

The opposing view, which appears to be supported by both the current Minister for Industry, and the Shadow Minister, is that there is an important role for industry policy and an important part of that role is to provide an effective conduit between industry and the policy makers who determine policies that affect industry performance. Current thinking is in favour of placing more emphasis on partnerships between government and industry. The issue for the future appears to be not whether this is a legitimate role for government but rather what reforms can be made to enable governments to perform this role more effectively and more efficiently.

One proposition advocated by the Productivity Commission is that industry policies should be assessed as far as possible with respect to all industries and not largely confined to manufacturing. This can reduce the risks of producing discriminatory policies which can distort resource allocation and also overcomes the problem created by the strong interdependence between products and services, particularly in the newer industries such as information, telecommunications and gene technology.

The key elements of future industry policy are likely to correspond closely to existing components of government policy but with closer ties to specific industry requirements. These would include policies directed to:

- technology—research and development; innovation and commercialisation
- labour market—education and training; flexibility in remuneration and allocation of functions
- capital market—venture capital/ risk sharing/ scope for attracting superannuation funds; taxation of investment funds; investment incentives
- trade—market access; export incentives
- infrastructure—investment in new infrastructure; efficient operation of existing infrastructure services
- government regulation—environment; health, safety, etc., and
• small and medium sized enterprises.

In all of the above areas, there is widespread acceptance that there is some role for government and the difficult questions concern the nature and extent of government intervention. The particular challenge for Government is to integrate and synergise the wide range of business environment issues listed above into a comprehensive industry policy framework.

There are strong arguments for developing an industry policy which has as its primary objective the promotion of the international competitive capacity of all industry. This will require major shifts in policy orientation and policy tools, for example, a shift from having the central focus of policy on a small number of key, mature industries towards promoting growth in the newer knowledge intensive industries. It will also require more attention to promoting the development of our resource base, particularly our human skills and technology base, and the smarter, more productive use of this resource base.

Greater attention will need to be paid to developing the most effective incentives and regulatory mechanisms to facilitate this transfer to a more knowledge-intensive industry structure. A particular challenge will be the protection of intellectual property rights, both domestically and in the international trade context.

A key element of the proposed new industry policy structure will be the development of effective communication and coordination linkages between the key stakeholders. There is a need to more clearly define the roles and responsibilities towards industry of the different levels of government and the providers of education, research and infrastructure services. Equally there is a need to better define the responsibilities of industry towards our national economic, social and environmental goals. Finally, and most importantly, there is a need to get the right balance between the public and private interest components of the proposed strategy. This balance must reflect the fact some aspects of risk taking are better suited to private enterprise and the operation of a largely free market while other aspects which involve divergences between public and private interests are better suited to government control.

Education and Training

There is evidence that the education and training process in Australia is not well attuned to the requirements for industry employment. The Mortimer Report noted that the business sector is concerned about the education system and vocational training, and that students often lack skills required by employers. It recommended:

Review the education system to sharpen the focus on excellence, improve business and vocational skills and meet industry needs to lift both growth and employment.\textsuperscript{48}
The Mortimer Report, however, provides no guide as to how the focus of the education system should be sharpened or who should have the responsibility for implementing this recommendation. There appears to be a common perception in industry policy departments of government, and in industry itself, that education and training is some predetermined input that falls outside the direction and influence of industry employers.

Former Telstra chief executive, Frank Blount, argues that excellence in the education system very much matters to business. He said that 'the Australian workforce needs to be in life-long learning mode. A solid education base is essential to this, and Australian business must play its role in driving and supporting the life-long learning model'.

The need to create stronger links between the education and industry sectors has long been recognised and a number of initiatives taken to achieve this end. With respect to higher education, the Business/Higher Education Round Table, comprising the chief executives of many of Australia's major corporations and the vice-chancellors of Australia's universities, has the mission of advancing the goals and improving the performance of both business and higher education.

The recent discussion paper on Higher Education Research and Research Training issued by Education Minister Kemp proposes a number of changes to make research funding more competitive, to increase the concentration of research funding into a smaller number of institutions and to increase the influence of student choices. Professor Vicki Sara, chair of the Australian Research Council, made these comments about the Discussion Paper:

To be successful as a knowledge-based society we must nurture our young researchers. Research training will need to be of the highest quality and globally oriented. This requires us to provide access to the cutting-edge technologies, facilities and information, whether they are found in Australia or overseas.

Higher education and vocational training should form an integrated part of the industry policy framework. Education and training deserves the same status as the other key industry program areas identified by Mortimer, namely investment, innovation, exports, competitiveness and sustainable resource management.

**Encouraging High Technology Industries**

Most participants in the debate have advocated giving greater attention to the high technology industries and the use of knowledge intensive processes.

Government and Opposition spokespersons have advocated changes to Australia's capital gains taxation to attract venture capital investors, in particular the US tax-exempt pension funds. Another proposal is changes to the tax system to make employee stock options more attractive as a means to further stimulate the entrepreneurial environment.
Several recent initiatives have been taken by the Government to encourage the newer knowledge intensive and high technologies industries and processes. An Action Agenda for the Information Industries is being implemented and an Action Agenda for Biotechnology is being developed. Several new Budget commitments have been made to support these programs. These include the elimination of tariffs on inputs to information industries' equipment, a $28 million program to provide access to the latest software engineering technology and $10 million to develop a national biotechnology strategy.

A key observation of this paper is that these Government actions to promote new industries involve a relatively low key Government response and a small commitment of resources. While they are steps in the right direction, they can not be seen as constituting a major shift in the focus of industry policy from the traditional industries to the newer industries and technologies. Australian industry policy continues to be dominated by the PMV and TCF industries.

If such a shift in industry policy is to occur, it will need to be driven by commitments at the highest level of Government and industry. It will require more than government seed money to encourage the current private sector efforts in these areas. The generation of the required momentum to develop investor confidence is likely to require some sharing between industry and government of the substantial costs and risks involved in the early years.

Endnotes

8. Jason Koutsoukis, 'Nuisance tariffs will be slashed next year', The Age, 2 July 1999.


13. Ibid. p. 11.


15. Invest Australia, personal communication, 4 August 1999.


17. 'Realising Our Potential', address by the Prime Minister to the Queensland Chamber of Commerce and Industry Dinner, Brisbane, 15 August, 1997, p. 6.


20. This section is largely based on Tas Luttrell, 'APEC after Subic Bay–the Road to Free Trade', *Current Issues Brief No. 25, 1996–97*, Department of the Parliamentary Library.


31. Ibid. p. 5.


36. ibid. p. 15 and 154.


40. ibid. p. 211.


45. 'World Trade Fifty years on', *The Economist,* 16 May 1998, p. 23.


47. OECD, op. cit., p. 207.


