Keynote Speech - Bank of America Merrill Lynch Australian Investment Conference

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New York - 8 September 2016

Thanks everyone, and good morning — it's great to be with you for the thirty-first Australian Investment Conference here in New York.

And let me, in particular, thank Kevin Skelton and the team at Bank of America Merrill Lynch for inviting me to give the keynote address. I'd also like to recognise my former colleague and good friend Nick Minchin, Australia's Consul-General here in New York. The next two days at this conference represent an opportunity to forge connections, to cement relationships and to sow the seeds of future success.

Australia's economic performance over the last quarter century is exceptional. But as I'm sure many people in this room will be only too aware *'past performance is no guarantee of future results'*. So today I want to talk a little bit about where we have been, but mostly about where we are going.

Open to the world

Thirty-one years ago when the first Bank of America Conference was held back in 1985, Australia was in the midst of a major economic transformation.

The Australian Government was undertaking much needed micro economic reform by, amongst many initiatives, floating the dollar, deregulating the banking system and removing controls over capital.

Like all microeconomic reform it was hard yakka — an Australia slang term meaning hard work.

Perhaps the most important reform was the lifting of restrictions on foreign investment for almost every industry — from manufacturing to tourism. [1]

New banking licenses were made available to foreign banks, stockbroking controls were relaxed, while thresholds for inward direct foreign investment were increased or abolished.

But most important was the shift in mindset. The default position had been since at least 1975 that foreign investment was welcome provided it was not "contrary to the national interest". In fact various currency controls and a plethora of regulation acted as a foreign investment handbrake.

So various financial reforms helped to address the huge demand that Australia has always had for foreign capital.

As a very large country with a comparatively small population Australia has always imported capital to fund its economic growth. We simply do not have the necessary domestic savings to build the massive pipelines or mines, telecommunications infrastructure or roads, or even schools and hospitals to meet the needs of our people. So without a net annual inflow of capital we would restrict not only our economic growth but also our economic potential.

That's why foreign investment matters so much to us. That's why this conference is important over the next two days.

The economic reforms in the Australian economy over the last thirty years have not only been necessary, but in truth they were inevitable. Australians want economic freedom with reasonable levels of legislative protection. They are innovative, competitive and, because of our comparatively small population and distance from the world, Australians are outward focused.

But real reform these days comes from the deregulated private sector. Whereas once upon a time government was a major player in banking, airlines, airports and ports, postal delivery, health care, education and telecommunication, today that has all changed.

Government can have a guiding hand through regulation and taxation but, in truth, the mobility of capital and information has changed the reform game.

The big difference over the last few decades is that economic reform is less reliant on government decision making and more reliant on innovation.

Innovation can only happen where the regulatory environment facilitates creativity: where the tax system rewards risk taking; and where the judicial system protects intellectual property. Australia is well placed in this regard.

But more than anything else in a world where capital, labour and innovation can move across borders in record time, Australia is well placed to take advantage of the Asian growth story.

That's what I want to focus on in my time with you this morning.

Australia is a part of the Asian economic story but it is not entirely beholden to the regions growth.

In 1998 when the Asian Financial Crisis was at its worst, seven out of our top ten trading partners were in recession or depression, but Australia had the fastest growing economy in the developed world.

It was not an accident.

Most of you would also be familiar with Australia's mining investment boom, which began in the early 2000s and helped carry us through the worst of the Global Financial Crisis.

25 years without a recession was not an accident either.

We have built a robust and diverse economy on the back of substantial economic reform.

Today Australia continues to reap the benefits of that investment in reform.

Our strong commodity exports growth is expected to continue to underpin solid growth in real GDP despite lower than expected commodity prices. Our export volumes in some commodities like iron ore continue to reach record levels despite spot prices being more than fifty percent below peak levels.

Through reform within individual companies like BHP, Rio, Fortescue, Glencore and a host of other businesses, Australia has been able to lower the cost of production in iron ore, coal and a range of commodities that have seen peak prices pass.

So we remain the world's number one exporter of coal and iron ore. We are expected to become the biggest exporter of liquid gas in the world by 2020. And we have the world's largest reserves of uranium, nickel, zinc, gold and iron ore. We have massive reserves of bauxite, copper and a host of other commodities.

Mining and resources are just 9% of our GDP.

We are arguably better known for our agriculture and aquaculture where we are amongst the fourteen largest exporters in the world.

In beef, wheat, seafood, dairy, and wine we are taking advantage of the massive growth in demand from the emerging Asian middle class for better quality food.

Fifty six percent of our agricultural exports go to Asia. With the emergence of 3.2billion people in the Asian middle class within just 15 years, that demand is set to explode. Agriculture is just 2.3% of our GDP.

So with more than 85% of the Australian economy in areas other than mining, resources and agriculture, the opportunity for growth beyond domestic consumption is enormous. This is the benefit of a diversified economy.

In the last year, the economy grew 3.3 per cent — well above the OECD average, and faster than every economy in the G7.

That's faster than the United States; faster than the United Kingdom. And to take a comparable resource-rich economy, more than twice the pace of Canada.

The news is also good when you look beyond the headline growth figure. Hundreds of thousands of jobs have been created as part of this transition — and this has seen the unemployment rate fall to 5.7 per cent after a post-financial crisis high of 6.3 per cent. This solid growth in jobs has also coincided with a steady increase in consumption, while construction remains strong.

In fact, all you need to do is look at the skylines of Sydney or Melbourne — both dotted with cranes — to see the story of recent times. The latest crane count in both cities highlighted that activity remains buoyant with 288 cranes in Sydney and 148 in Melbourne in the second quarter of this year.

It's a story about confidence. And it's one that's reflected in surveys of consumer and business sentiment.

All of this tells us that economic conditions in Australia make this a good time — no, a great time — for non-mining businesses to grow and invest, particularly with growth being supported by historically low interest rates and a flexible Australian dollar.

The Asian region

Of course, the tale of the Australian miracle is incomplete.

As you're all aware, Australia is well-positioned in the Asian region. With China already our largest trading partner, Australia actively looking to Indonesia, India, Vietnam, Thailand, Laos and Bangladesh for new growth. Obviously our already enormous trading relationships with Japan and Korea will continue to grow on the back of increasing demand and new free trade agreements.

But as we diversify our massive surge in exports beyond mining and dining other areas like health and aged care, financial services and ancillary services like engineering, legal services and architectural services will grow. Of course we are already seeing an increase in both volume and yield from education and tourism exports which are our 4th and 5th largest category of exports already.

So I am stating the obvious that the transition from production to consumption across developing Asian economies leaves us well positioned for another twenty five years of uninterrupted economic growth.

This demand has, of course, been driven in large part by China, which has undergone its own infrastructure boom in recent times which drove record demand for Australian iron ore and coal. And as you'd expect, as Australia's boom is receding so too is China's.

Australia is also well positioned to take advantage of these opportunities with a highly skilled, diverse and well educated workforce underpinned by a sustainable immigration program that runs at around 1% of population each year. Importantly our immigration program has bi partisan support and is based on a “skills first” bias.
Finally our services infrastructure works incredibly well despite the pressures of growing demand.

Our financial services sector is world renowned and makes up nearly ten percent of our economy. Our capital markets and equity markets are transparent and liquid. The Australian dollar is a highly traded credible currency. Our four banks are amongst the top twenty in the world and our superannuation system is the fourth largest pension scheme in the world.

Our legal system is highly regarded, affordable for business, transparent and timely. And our telecommunications sector is world class with the rollout of a national broadband network that will make high speed affordable broadband available across almost all of the habitable continent.

In my view much of the world’s new growth is going to be supported by new investment in essential economic infrastructure.

Private infrastructure investment in Australia grew strongly during the mining boom. We’ve seen $700 billion of private infrastructure investment in Australia over the last decade — more than three-and-a-half times what we saw in the decade before. [2] And as Australia’s economy grows, opportunities for infrastructure investment remain.

In February, Australia’s population hit 24 million people. By 2031, that number will be more than 30 million — with three-quarters of the growth occurring in Sydney, Melbourne, Brisbane and Perth.

That means Australia needs a significant infrastructure push to drive productivity growth, maintain and enhance our standards of living, and make sure our cities remain world-class.

And that means many opportunities for governments and businesses to work together to fund future infrastructure initiatives.

The Australian Government has committed around 3 per cent of our GDP to fund productivity-enhancing infrastructure across the country.

That includes, for instance, large-scale projects such as the WestConnex Motorway in New South Wales and the Melbourne Metro Rail Tunnel in Victoria.
Preparatory works for a new airport in Western Sydney is also well underway to expand on our potential as an international gateway for the region.

Australia is a world leader in the successful application of Public Private Partnerships, which many countries around the world seek to promote.

That is one of the reasons you will find the Global Infrastructure Hub, established under Australia's G20 leadership, is based in Sydney and plays a key role in helping to grow the global pipeline of quality, bankable infrastructure projects around the world.
The Government is also implementing "innovative financing" approaches. This includes concessional loans, debt guarantees, value capture and even equity investments — all of which is aimed at encouraging additional private sector investment in infrastructure.
So let me give you a couple of working examples.

One of the initiatives that I am proud to have delivered in my first Federal Budget as Treasurer in 2014 was the Government's Asset Recycling Initiative. That decision is now supporting new infrastructure investment right across the country by releasing funds locked up in mature brownfield assets owned by state governments.
Under the initiative, agreements have already been reached to provide $2.3 billion to support $17 billion of infrastructure spending. And this provides an opportunity for the private sector to invest in 'brownfields' assets — ones that have proven, stable revenues.

At the same time it allows new projects to be funded, like the Sydney and Melbourne metros, regional road freight corridors, flood mitigation for the North of Australia and rail projects in NSW and Victoria.

Another example is the $5 billion Northern Australia Infrastructure Facility.

The Government is partnering with the private sector and providing access to 'patient capital' in the form of concessional loans. These extend beyond the term of typical bank loans, and could have more flexible repayment options — making them a very attractive option to investors.

Of course, so much of this depends on the free flow of capital.

Trans-Pacific Partnership (TPP) Agreement
Now shortly I will take questions. But before I do I wanted to talk a little bit about an issue that has been occupying a lot of my time more recently, the Trans-Pacific Partnership Agreement.

As I said at the outset, Australia's economic success has been based on hard yakka.
By opening our economy to the world we have helped build and facilitate prosperity. But I recognise that making the case for reform is not easy. Every country faces its own particular challenges in communicating the message that free and open trade stimulates economic growth and creates jobs.

But Australia is Exhibit A. There is no doubt that free and open trade has underpinned our success over the last three decades. And I am pleased to say that it is still a principle that is strongly supported by governments of all political persuasions in Australia.

Our willingness and ability to compete in global markets have been a key part of our economic resilience, particularly in Asia. Australian exporters are now reaping the benefits of bilateral agreements with our three key North Asian partners: China, Japan and Korea.

Australia’s economic prosperity is closely linked to Asia’s and we are not alone. Many other countries recognise that it is essential to be a partner in the Asian economic juggernaut. This is why the Trans-Pacific Partnership Agreement, the 12 –party trade deal struck in October last year, is so important.

Global value chains are critical to trade in the 21st century. And the TPP is an agreement that supports them.

As goods and services become more sophisticated the level of cross border componentry keeps increasing. Very few countries manufacture goods from mine to main street. And households are less likely to consider where a pot or pan or thermomix machine is made than they are to support locally made cars. Price and quality are the big influencers on consumers.
And lets face the fact that between half and two thirds of economic growth in modern western economies comes from household consumption.

So free trade matters. Free trade delivers economic growth, it creates jobs, it rewards innovation and it makes things cheaper and more accessible for everyday citizens.
It is important not only for the economic benefits it delivers, which are significant in themselves, but for the strategic alliances that form when, in the case of the TPP, 12 diverse countries agree to a common economic platform, with common rules and common standards.

The TPP is a crucial building block for commerce across the Asia-Pacific. It will deliver greater trade flows, increased investment and support greater levels of business activity throughout the region.

We are all aware of the challenges that face passage of the deal in Congress. But as I said making the case for reform is not easy. Australia remains focused on doing all that it can to see the TPP become a reality.

Concluding remarks
So perhaps I am a Cassandra in this city for being an optimist about the future.

From an Australian perspective it is a time filled with promise — and Australia intends to make a success of it.

But it’s not something we can do alone.

We want your investment and your innovation.
We want your people and their ambition.

Australia is open for business and we look forward to the days ahead.

Thank you.

[1] Uren, D (2015) *Takeover: Foreign Investment and the Australian Psyche*, Black Inc., Collingwood, p.138.
[2] ‘Private infrastructure investment’ refers to the ABS National Accounts measure of new engineering construction.