

## **Address to CEDA Economic and Political Overview**

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Good morning and thank you for the warm welcome.

I always enjoy visiting Perth. It has an outward looking, can-do business community which, together with the state's natural resources, has created one of Australia's most successful economies.

When I last spoke at the CEDA Economic and Political Overview it was in Melbourne back in 2011. I was asked to provide some thoughts on the impact of the minority government and what it meant for economic reform in Australia.

I talked about the need to create a nation much more deeply engaged with our future in Asia and able to make the most of the significant opportunity the Asian Century provides us in natural resources and in agriculture.

I also talked about the need to improve our competitiveness particularly in manufacturing.

Three years on, we know there is an enormous gap between the policies and reforms that Australia needed and what the minority government actually delivered. And today, that gap has become even more urgent to address.

The consequence is that we missed opportunities and as we know, Australia's growth outlook is softer and our fiscal position significantly worse.

Here in Western Australia the resources boom did not reach its potential because, among other things, national policies to ease supply-side constraints were not addressed.

In fact matters were made worse: capital was frightened away from Australia by the resources tax fiasco and labour challenges were made more difficult by policies that reduced the availability of much needed foreign labour and expertise.

In traditional industries like manufacturing, successive Australian governments have failed to address the major productivity challenge that Australia faces.

In recent months for example, this productivity challenge has been among of the complex range of issues that contributed to decisions by Ford and General Motors to cease manufacturing in Australia.

These lost years of reform serve to support our most cynical view of politicians - that power is all that counts in politics.

But as we have seen during the past decade, power without ideas is only improvisation and it makes us recall the best of the Hawke, Keating and Howard years which showed us that it's big ideas that enable leaders to impose a direction on events.

Today, one of the issues we will be discussing is whether we can expect better outcomes from the Liberal Coalition.

Well, let me start by saying that the Abbott government has shown a willingness to listen to views and to ideas from business.

Many of us in this room know from bitter experience during the Rudd-Gillard years what a huge improvement this is and what an important and positive first step it has been by the government.

This new environment of dialogue is why we have seen a more active contribution from business to the national policy discussion in recent months.

I would encourage the Prime Minister to foster this discussion, to build a consensus around the ideas that Australia needs to build a stronger economic future.

We all need to remind ourselves of what can be achieved when Australia is led by politicians who think first about what benefits Australia in the longer term rather than focussing primarily on the short-term election cycle.

But a rapid shift from listening to acting is now urgent given the absence of meaningful economic reform over the past decade and, to be frank, by the fiscal mess created over the past few years.

As we enter 2014, am I optimistic? Well, right now the jury is probably out. The decision not to approve the ADM takeover of Graincorp was hard to understand.

Australia's agricultural industries have huge potential in the Asian Century but as we highlighted in a recent ANZ Insight report we desperately need capital to realise this – some \$600 billion between now and 2050.

As we have seen in the resources sector - foreign capital has a key role to play and capital goes where it is welcome.

On the other hand it is pleasing to see the government championing the trade liberalisation and to hear Prime Minister Abbott highlight the important role of business in driving economic growth.

And there is also the welcome appointment of a senior business leader in Tony Shepherd to chair the government's Commission of Audit which is reviewing the size, scope and efficiency of government.

But it does seem the ground is being prepared so that we should not expect the numerous inquiries and reviews underway will result in meaningful reforms until the next term of government.

This expectation management reflects the current reality that Australian politics are now more polarised than ever.

And let's not ignore we still have a coalition, which whilst much better than a minority government, means Liberal Party governing in partnership with the Nationals – and as we have seen the two sides sometimes see the world quite differently.

Within political parties we see diminishing numbers of reform minded individuals and even more worrying, we have seen the emergence of political parties and politicians whose views no longer describe the reality we face, let alone having the capacity to change it.

Regrettably, this is true of many western economies where the reform debate has stagnated in contrast to the approach in key Asian economies where reform has focussed on driving economic growth and national prosperity.

Let me say though, as a banker I am an optimist by nature and I think we will be in a better position to assess what we can expect of the Abbott government after the May budget.

In the meantime, what do I think 2014 holds?

I am going to avoid predictions – a better way of looking at what is ahead is to focus on the key underlying force that is shaping our economic landscape.

Although I think much of the developed world is entering an era of diminished growth and diminished expectations, the outline that emerges for Australia is one of continued opportunity.

This opportunity is directly linked to the continuing redistribution of economic power to Asia where the region will account for around 50 per cent of global GDP by 2050 while the US and Europe will account for around 20%.

Although China alone could account for a third of the world economy, it's important to remember that Asia is not just a story about China's growth.

In fact, as recently as 2008 the ASEAN economies received only half as much foreign direct investment as China.

Four years later in 2012, this gap had closed significantly with ASEAN attracting around \$110 billion in FDI compared to \$120 billion for China.

It highlights that the ten ASEAN nations including Indonesia, Malaysia, the Philippines and Thailand are going to be a key part of our future.

And of course there are also the non-Asean nations of India, South Korea and the resurgent Japan.

Together, this holds the promise of making a further 3 billion Asians affluent by today's standards.

The result is that Asia will largely regain the dominant global economic position it held 250 years ago, before the Industrial Revolution.

Despite Australia's proximity to Asia and our economic inter-dependence, with the notable exception of Western Australia, we seem to watch this transformation with a mixture of complacency and disbelief.

Even now the regular cycle of hard-landing concerns about China persist among commentators. "China growth in slow lane at 7.7 per cent" read a recent headline in The Australian.

Yes, China's current growth rate of around 7.5 per cent does represent a slowdown from the 10 per cent growth trend recorded from 1980 to 2010.

And yes, there are concerns over excessive debt and related fears about the banking system; worries about a property bubble; and the presumed lack of meaningful progress on economic rebalancing.

But let me assure you 7.5 per cent growth in an economy the size of China's is not in the slow lane.

What is occurring is a rebalancing of the Chinese economy toward less export-driven, more services and consumption-based economy .... something which can't be expected to occur overnight.

It will take strategy, time, and determination .... and China has an ample supply of all three.

Just in case you haven't been able to review the recent 21,500 word "Decision" from China's third plenum, covering 15 areas of reform .... the key shift is the focus on China's much-talked about pro-consumption structural rebalancing.

This includes new language setting out a "decisive role" for the market in the Chinese economy - a change from the past, when the market was assigned a "basic role".

It means we will begin to see the reform of state-owned enterprises, and financial reforms that will include greater exchange rate flexibility, and interest rate and capital account liberalisation.

To allow room for this structural transformation, China's growth is moderating with annual growth of 7 to 8 per cent .... and perhaps closer to 7 per cent in 2014.

This is actually good news.

Greater reliance on services will support consumer demand and also allow China to move to a more sustainable growth trajectory and away from resource and pollution-intensive activities such as manufacturing and construction.

Far from being in the slow lane, annual growth of 7 per cent will underpin demand for Australia's mineral and energy resources and create a major new opportunities in agriculture.

It's worth noting that iron ore prices actually rose in 2013, averaging \$135 a tonne compared with \$128 in 2012. This happened at the same time as services became a larger proportion of Chinese GDP than manufacturing for the first time.

The rebalancing is occurring while economic activity and commodity prices both remain healthy.

Taking full advantage of the opportunities Australia has is not inevitable though.

We have been privileged in our ability to attract global capital for resource developments, but countries in Africa, Asia and South America are all working much harder than we are to improve their positioning.

These global competitors mean it's essential that we stop the cycle of complacency and disbelief, and get on with urgent economic reforms we need to maximise the unique opportunity that is being created by the Asian Century.

I believe how we re-orient our economy to maximise the Asian opportunity is the key foreign policy and economic reform challenge for Australia.

The required reform agenda needs much work and discussion.

Opportunities like this are rare, and with the lost decade of reform we have already experienced, I believe government and business now need a much greater sense of conviction about Asia and a much greater sense of urgency around economic reform.

Those of us in business need to support this process by engaging the nation, fostering understanding of the new wave of reform that we need to drive growth and productivity.

Many thanks for the opportunity to speak to you today.