

HANSARD 25 FEBRUARY 2010
PREMIER'S STATEMENT

Consideration

DR M.D. NAHAN (Riverton) [4.15 pm]: When I thought about what I would discuss today in my comments on the Premier's Statement, and when I looked back through my first full year in this Parliament, the overwhelming conclusion that I came to was: what a difference a year makes. Last year, the world was staring down the abyss of another Great Depression. The outlook was grim, even in Australia, the lucky country.

Members may remember the debates that we had at that time. We discussed the collapse of some of the largest financial institutions in the world. We discussed the huge and unprecedented fiscal stimulus that Prime Minister Rudd was proposing. We discussed the closure of the Ravensthorpe nickel mine, rising unemployment, the decline in equity markets, which was felt by all those who have investments, the concerns about the housing market, and the loss of royalty income at an unprecedented level. The outlook was very grim. We will never know how close the world came to experiencing another Great Depression, but I suspect we came closer than many people think.

Western Australia and Australia proved to be very resilient in the face of the world downturn. In the past, when the United States caught a cold, we caught pneumonia. This time, the United States caught triple pneumonia, and we got the sniffles. The global economic crisis had a big impact on many people, not only in my electorate of Riverton, but throughout the state. Sure, there was real pain. The Leader of the Opposition has gone through the closure of mines and other operations at that time. But the situation could have been far, far worse.

Throughout 2009, Western Australia and Australia staged a phenomenal recovery. We avoided the mass bailouts of banks, the mass bankruptcies, the mass rises in unemployment, and the collapse in housing markets and household wealth that was experienced around the world. If we look at the situation in Europe, Greece is on the verge of bankruptcy, and Spain, Portugal and Ireland are not far behind. Iceland has gone down the tube.

The United Kingdom and the United States, which historically are Australia's major trading partners, will take decades to pay back the debt that they have incurred to avoid collapsing into the abyss. For example, over the past year the United Kingdom and the United States have incurred more debt as a percentage of gross domestic product than they did during World War II. Western Australia and Australia have managed to avoid that. The outlook for the Western Australian economy is brilliant. According to the Department of State Development, in the resources and energy sector alone, \$139 billion worth of projects is either on the drawing board or very advanced.

The question I want to address is: how have we managed to avoid experiencing the severity of the global financial crisis that other countries have experienced, and how is that relevant to the seat of Riverton? First, we need to remember that it is not just because of luck. We are the lucky country. We make our own luck. But it is not just because of luck. It is because of the economic reform policies that have been adopted in the past. On current estimates, the United States has come out of this recession with a public sector debt equivalent to 80 per cent of gross domestic product.

Japan has come out of this recession with a public sector debt equivalent to 150 per cent of GDP. We have come out of this recession with a public sector debt equivalent to 14 per cent of GDP. That is firstly because of the stringent fiscal policies put in place by the Howard government over 11 years to balance the books, reduce public sector debt and build up a budget surplus. Those policies gave the Rudd government the capacity to provide a large fiscal stimulus. Without the policies of the Howard government, Rudd would not have been able to provide that stimulus.

The Howard government also put in place policies to regulate the banks. The sound banking practices that were put in place as a result of those policies helped this country to avoid the bankruptcies and the collapses in the lending and housing markets that have plagued every other wealthy country in the world.

Those are phenomenally beneficial. Another major reform was in industrial relations policies—which I will touch on later—first by the Keating government, built on by the Court government and then the Howard government. These industrial relations reforms allowed our businesses to be flexible, to adjust and to keep people employed and avoid the mass unemployment of other places. The Barnett government came in and faced the GFC—not as bad in Western Australia as in other places or in other states—with a good, sound fiscal policy to build on and which allowed the budget deficits to adjust and to assist the economy and undertake capital works. It is as it should be.

The take away from that is that the best thing going for my electorate and for this economy is to continue the process of reform, and particularly to make sure we have our house in order if this happens again.

Two other areas that were extremely helpful and indeed pivotal were, first, China and, second, the resources sector. Let us face it, the most important reason for our ability to avoid the GFC, in one word, was China. Mr Rudd is correct: the government stimulus did help, but not so much his government's but China's. The Chinese government undertook a massive fiscal stimulus last year of 11 per cent of its GDP—twice our stimulus! Unlike Mr Rudd's stimulus, the Chinese stimulus got to the market quickly and concentrated on capital and helped the economy.

When the Chinese government decides to do something like build a port or a road, the bulldozers are on site next week. Shovel ready means shovel ready in China, even if the stimulus does result in excessive infrastructure. There are examples, if you follow it, of whole cities in north-east China being built, but are unoccupied. There is a very good Facebook site about an empty city. I am sure the Chinese have done that, just like the fiscal stimulus here. When we try to rush things, we do not do so well, as Mr Garret found.

In China, the demand for infrastructure is so great that that empty city in north-east China will soon be filled up; in other words, they have the demand. Unfortunately, in Australia and in all other wealthy countries, when we try to do things quickly, we will run into delays so that 70 per cent of the capital being spent and spurred on by state and federal governments by the end of November 2009 was actually committed to by the Howard government. In other words, most of the capital under the Rudd stimulus has not hit the market yet. It takes some time. The Rudd stimulus has not been a major reason for our avoiding the GFC; it has been China. China was also crucial in funding.

One of the problems of the GFC was a complete collapse of the financial sector. No one could get loans. No one could borrow or float money. No one could get cash. China did not have that problem.

It has one of the highest savings rates pushing 35 to 40 per cent of GDP, which is phenomenal. China had huge cash surpluses controlled by Chinese banks, and it wisely decided during the downturn in equity markets to look offshore and make major investments, particularly in the resources centre.

It sent its investors offshore—mainly government-owned enterprises—to buy assets and to invest. China pumped \$40 billion worth of investments in the Australian economy, mostly in Western Australia. Talk to any miner and they will tell you who is funding them. It is China. They saved our bacon when the banks went dry. China stands to play an even greater role in the future, and it is overwhelmingly the reason for our rosy outlook. Take China out of the equation and it would not be that rosy.

Despite Western Australia's economic future being tied so tightly to China—I would argue more tightly tied to China than any other relationship around the world, except maybe Canada to the US—we do not know very much about China. We know even less about China than what we knew about Japan when it played a similar role. Back in the 1950s and 1960s Charlie Court did many, many bright things. He saw the importance of Japan to our economy and he instituted a number of policies to foster this relationship.

The way to foster a relationship is to get know each other, so he encouraged the study of Japanese in schools. Now Japanese is now the second most or maybe even the most commonly studied language in Western Australian schools. It is phenomenal; more students study Japanese than Italian or French. He also helped set up or spurred on an institute at the University of Western Australia where people study the Japanese economy and Japanese language. That school has educated more than 80 per cent of Australian ambassadors to not only Japan but also China and other Asian countries. We have to do something similar here.

I gave a talk earlier in the year on the study of Mandarin. To understand a people, their culture and their economy, we have to understand their language. The study of Mandarin in Australia is simply paltry. In 2006 only 1 200 kids were studying Mandarin in Western Australian public and private schools compared with 30 000 kids studying Japanese. That same year, only 21 students sat Mandarin at year 12 level. Luckily, one thing that we have in our knowledge and linking with China over what we had with Japan is a large number of local Chinese people.

Few Japanese people migrated to Australia. We have a very large, active Chinese community, many of whom, as many members know, live in my area. It is a phenomenal community of people who do not sit back and wait for other things to happen; they get out and do it. The Chinese community has established four schools, and each Saturday 2 500 kids attend for four hours to study Mandarin. It is phenomenal. More kids study Mandarin at the community schools than at all the public schools in the state. It is a very positive undertaking.

One of the issues that I have worked on is to try to encourage not only study but also the expansion of facilities in public schools and in the community for the study of Mandarin. A major initiative this year that we will work on involves Rossmoyne Senior High School in my area, which has become an independent public school—one of the first of 34, I believe. The school has long had a Chinese language program and now wants to expand its operations to include facilities for the community schools.

That is an area I am working on very hard. If we go around the universities, although on the technical side there is a lot of work, on the strategic side there is very little.

The University of Western Australia in a joint venture with Curtin University of Technology is proposing to establish a major centre called the Australian–Asian Centre for Energy Markets, which will focus on China as well as the rest of Asia. We should fully support that centre; these initiatives deserve our support.

The resource sector—imagine our economy without it! Resources dominate our exports, our investments and, of course, are the main attraction for China. The recovery in the resource sector was the essential reason for the recovery in not only Western Australia but also the nation. The outlook for the resource sector is phenomenal. It is easy to say it is simply an outcome of luck, but if we look around the world, we see many, many countries that have phenomenal resources—African nations such as Congo, Russia and many other countries. In fact, Congo has a better resource base than Western Australia but it has not nurtured it.

Resource wealth is of no use unless it is managed well, and there are two factors that can work against it. The first is the Dutch disease; that is, if a resource booms, it raises prices and pushes everything else thereby destroying the rest of the economy. The second is that resource wealth can engender a rent-seeking mentality whereby people sit back and do not foster the growth of the resource sector but simply try to grab it any way they can.

Historically in Western Australia we have done that very well. A bipartisan approach has been adopted. This is why our resource sector grew and others did not. The Barnett government has done a couple of things very impressively. One of the first things that Hon Norman Moore did was step in to remove or reduce the regulatory burden faced by the resources sector. It was crippling. It needed to be looked at. He has done an excellent job on that.

Yesterday the Leader of the Opposition was correct when he said that one of the great challenges facing us in this state, and this government, is to sustain the growth to allow us to reach our potential. Although the Rudd government has supported it, particularly with capital in the form of its stimulus program and joint ventures, often with the state, and it has invested heavily in appropriate capital initiatives, there are worrying signs that the commonwealth government is succumbing to rent-seeking behaviour. When the Rudd government came in to power, one of its major policy changes was to industrial relations. Those changes took a long time to come to fruition.

Those changes were largely gazetted in January of this year. We are already starting to see worrying signs from that, with strikes at the Pluto project over the “hoteling” of workers, at Mermaid Marine Australia Ltd, at the Gorgon project and at Alcoa. These represent the greatest threat to the resource sector and the sustainability of our economic future.

Investors still remember the 1970s and the dysfunctional industrial relations system that plagued the sector. If we were to return to that time we would lose our future. If members remember, in the 1970s the Japanese, particularly in response to Robe River, said, “We have to find an alternative.” They went out and invested very heavily into India. That led to major competition with us for iron ore.

Dr M.D. NAHAN: That could easily happen today. The Chinese are investing very heavily in Africa, in iron ore and other minerals, and elsewhere for access to oil and gas. Even though the projects of Gorgon and Pluto are very lucrative, they can be stopped. Last night, on the ABC's *Lateline* program, the managing director of Woodside stated, in response to the illegal strike that was allowed to go for eight days in respect of hoteling, that the company has decided that it must safeguard its contracts and is out there looking to contract for replacement gas.

When a company invests \$12 billion in a project, it has to sign contracts to meet a certain date. Because of the change in the industrial relations situation, Woodside now is fearful that it will not be able to meet its contracts. Woodside is out there spending money to purchase gas in case that happens. There could be no clearer signal to overseas investors that sovereign risk is rising in Western Australia than that.

The member for Rockingham made a couple of points about royalty arrangements in his comments. One of the problems with royalty arrangements is that royalties apply to very wealthy mines. Wealthy mines can very easily afford to pay, but they hurt the marginal ones. The same thing applies to excessive and inefficient industrial relations systems—maybe Gorgon can get through them and maybe Rio Tinto can get through them, but the marginal mines—the smaller and less profitable mines—will be killed off. It is not clear yet how Rudd will react. He has sat on his hands most of the time. There are some positive factors.

The Howard government put in place the Australian Building and Construction Commission—ABCC. The Labor opposition has tried to get rid of it a few times but has not succeeded in doing so. The ABCC has taken action successfully against Mr McDonald of the Construction, Forestry, Mining and Energy Union for his illegal behaviour on the Pluto project. I understand other actions are being considered. However, there is no doubt that the biggest threat to the wellbeing and future growth of my electorate of Riverton is anything that threatens the resource sector.

Another threat lies with the commonwealth in an offshoot of the Henry review. The Rudd government committed to a so-called root and branch review of the taxation system—an appropriate action. The review has been released to the Rudd government but Rudd has not released it, although it has been leaked very heavily. One aspect that makes one suspicious of that review was the exclusion of certain measures, such as the goods and services tax; that is, the second-largest tax was excluded from the review.

However, some of the statements coming from Mr Henry, the head of commonwealth Treasury, should send concerns to all sides of politics. One of his proposals is to impose a profit-based tax on the resource sector. He is not proposing this necessarily as a replacement for royalties, although we have not seen the fine print; it is just a separate tax on the resource sector. In other words it is a discriminatory tax on the resource sector. What greater threat could be imposed on the very sector that is driving our economy and our future? It is what countries such as Indonesia, Papua New Guinea, the Democratic Republic of the Congo and Russia did and which led to resources being left in the ground. On both sides of politics in WA—I am very encouraged by our leader's statement on this—it is also seen as a grab for our state tax base.

If this proposal does not do that, it would be for a different reason. Nothing could be a greater threat to the state and the growth of our economy if the state were to lose the capacity to fund the infrastructure needed for the mining sector to develop. Nothing could be more threatening to our future if the state were to lose the capacity to provide the services that people expect and deserve, particularly from a booming economy.

If the wealth of the next boom or growth phase goes to Canberra and is redistributed to New South Wales, South Australia, Tasmania and the Northern Territory and does not come back to Western Australia, the expansion will not happen. It is as simple as that. We need more bipartisan action on this and we need to act very quickly. I might add that bipartisanship should prevail in the industrial relations area in addition to taxation.

I would like to comment on independent public schools. My electorate is going through—I think the member for Victoria Park mentioned this—a regeneration. Seventy per cent of the people coming into my electorate—at least of those on the electoral roll—are less than 40 years old.

Many suburbs and areas are going through such a regeneration. Of course there are huge numbers of migrants, more recently from South East Asia, but also from various Asian communities. More than 35 per cent of the new citizens are from Asia. Every time I ask them at citizenship ceremonies why they are coming into the electorate, the overwhelming reason is schools. They come in there, rent for a while and ask people where the best public schools are to go to. They hear about Rossmoyne and Willetton Senior High Schools and it is to there that they come in their droves.

Mr W.R. Marmion: Shenton College; do they know about it?

Dr M.D. NAHAN: Sometimes; I do not tell them about it. Real estate in the electorate of the member for Nedlands is too expensive, although Shenton College is a fine school. When I first became a candidate in the election, and after I had won my seat by a landslide, I asked the electorate what was needed.

Mr D.A. Templeman: They probably said for you to leave.

Dr M.D. NAHAN: I can assure the member they did not; they did that with the former member. In fact for 10 years Willetton and Rossmoyne Senior High Schools had been working on a program to become what is known as independent public schools.

They said, "That's what we want. We want money of course, but we want to rebuild things; we want freedom to cater to our local community. We will do it well because we are doing it well now. The community overwhelmingly supports it; that is why people move here." They had been lobbying the Department of Education for more than a decade for something similar. Of course, when the independent public school proposal came up, Rossmoyne put up its hand, and got it. Willetton put up its hand and I am confident it will get it next time.

One of the things it allows Rossmoyne high school to do is not only retain staff and cater to the demands of the community, but also to focus on a state centre for Chinese language studies. After all, 40 per cent of the Rossmoyne student body is of Chinese descent—a perfect place to put it. It is phenomenal.

Another issue raised during the election campaign in Riverton, which is probably one of the most significant issues the government has addressed in my electorate, was the extension of Roe Highway. It is the reason I won the seat. Its history is a long saga that I will not go into but the government has committed to extending Roe Highway from the Kwinana Freeway to just past Stock Road.

It is very expensive, and a lot of work is being done on it. Unlike the previous government, which ran a community consultative program more of a Stalinist-Trotskyite nature, this government has undertaken very comprehensive, open consultation with the broader community—both those affected by the road and those living close to the road and otherwise. One of the major issues is the popularity of the extension. We have heard during debate on it how crazy we are, how unpopular it is and how ridiculous it is to build it. I have the result of a very interesting survey.

In fact, it should not surprise anyone because surveys done by the previous government, admittedly in the context of the Fremantle eastern bypass, found similar results; that is, net support for the road in the Perth metropolitan area is 70 per cent. That is so popular it makes us worry. Popularity of the road in the area affected by it is 73 per cent. Support for the road by those materially affected—right around the wetlands and other areas—is 65 per cent.

Mr W.J. Johnston: Get on with it.

Dr M.D. NAHAN: We are. We are bringing the people with us by listening to them rather than shutting them up, and that is working. One must look at the issue surrounding the highway and say, "Well, let's build it and let's address the environmental concerns because they are real." The area was gazetted for a road 40 years ago. In the meantime it has been developed into parkland and people have built adjacent to it. A large, busy highway full of trucks—which it is meant to carry—will disturb their lifestyle. We need to listen to them and address their concerns, particularly about noise, and that is what we are doing. It is called good government.

One of the issues we will face is that, once the trucks pass Stock Road, where will they go? Most of them will want to go to the port, but Labor has systematically put up barriers to that. The next challenge for us is to not worry just about our own electorates, where the extension is needed, but also those in Fremantle in the new member for Willagee's electorate.

Mr P.C. Tinley: Tell us where the reactor is going. Let us get onto your real topic, the one you want the most!

Dr M.D. NAHAN: That is the member for Willagee's first contribution to this issue, and it was pathetic and hopeless. This is a major concern.

In passing, it has been a phenomenal year for the government generally, both in economic terms and its success. The government has achieved much, but more is to be achieved. Even though Mr Rudd has helped this government extensively with funding over the past year, this government's greatest challenge will be how he tries to react to the decline in stimulus.