



strategic issues forum

AUSTRALIAN TRADE AND THE PACIFIC BASIN OUTLOOK

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WORKING PAPER NO. 3
JANUARY 1985

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Australian Trade and the Pacific Basin Outlook

Trade Potential as a Resource

Australia's resources are usually listed as including extensive raw material supplies and vast open spaces. It is often forgotten, however, that geographical position is a prominent determinant of growth. This is especially so when a country is located near to a high economic growth region.

Australia is indeed fortunate to be so close to and in fact a part of the Asia Pacific region, the growth performance of which has been so remarkable over the past two decades.

In 1960, North America accounted for a huge 48 per cent of world GDP and Europe for 30 per cent. Twenty years later, Asia's share had climbed to 19 per cent and North America's had fallen to 31 per cent. Fifteen years hence, there is every prospect of Asia's accounting for over 25 per cent of world GDP, with the whole Pacific region holding its share of over 50 per cent of world GDP. The centre of world economic gravity has shifted rapidly towards Asia and the Pacific, as the Pacific takes its place as one of the three key centres of world economic power.

Asia-Pacific growth and industrialisation is heavily dependent on trade growth and international specialisation. Trade in Asia and the Pacific is growing more strongly than income. Fifteen years hence, the region should account for between 40-45 per cent of all world trade, and there must be an enormous extension of financial and technology flows to sustain this trade and income growth.

Strong trade links among the countries of the region (the product of complementarity in economic structures and proximity and regional trade bias) make growth in the region of particular importance to countries like Australia. Australia's total trade could more than double in real terms in little over a decade if it maintains its overall shares of regional trade. Much of this trade growth will be in traditional raw materials and foodstuffs, but it will include a considerably increased share of processed commodities, as well as expanded trade in services and exports embodying human capital. The burden of import adjustments will continue to fall on labour-intensive manufactures.

How can trade growth be ensured?

This growth requires the continuing development of a confident trade regime, in which Australia and the other countries of Asia and the Pacific have a significant stake. There are some urgent priorities. Bilateral plans, like the China trade initiative (aimed at securing Australia's place in new markets with export potential for traditional and other commodities) are among these.

In addition, extensive consultation with Australian industry is essential. And there needs to be an active prosecution of the Western Pacific interest in multi-lateral trade negotiations which will open wider opportunities for growth.

Australia stands to benefit enormously from the direction of national energies, in government, industry, and the research community, towards securing its own economic future in Asia and towards the development of a strong and constructive voice in international commercial diplomacy, as the Pacific becomes an even more important influence in the world economic affairs.

The paper offers positive suggestions for policy and has the following sub-headings:

1. Growth in the Asia-Pacific Region
2. Australia's Pacific Trade Connection
3. Export Trade
 - (a) Japan
 - (b) South Korea and Taiwan
 - (c) China
 - (d) South East Asia
4. Import Trade
5. The Composition of Australia's Trade
6. Australia's Trade Policy
7. Tariffs
8. Incentives
9. Australia's New Initiatives in the Asia Pacific Community
10. Australia's New Overall Export Strategy

9. AUSTRALIA'S NEW INITIATIVES IN THE
ASIA-PACIFIC ECONOMIC COMMUNITY

Trade generates income and employment benefits. In some years during the 1970s more than one third of the growth of GDP was accounted for by exports.

Exports provide the opportunity for producers to operate at higher levels of output and as a consequence higher levels of employment can be maintained. Imports can also yield income and employment benefits as they provide the potential for efficient expansion of Australian industry.

However, there has been a deterioration in Australia's export performance. In the 1970s, Australia's share of world trade fell and penetration of most overseas markets declined.

Employment has emerged as a serious economic problem and the capability of the Australian economy to generate significant employment growth in the absence of structural change is questionable. A particular problem is that Australia's export sector has an overemphasis on exports of raw materials. In addition there is a trend towards ever growing Invisibles deficits and the related problem of a rapidly increasing debt burden.

The lack of a real commitment to export by Australia's manufacturing sector contrasts markedly with the approach adopted by successful economies in the region such as Japan, Korea, Singapore and Taiwan which regard export as crucially important. It is also relevant that small economies such as Sweden and the Netherlands have successfully developed export based manufacturing sectors.

The business environment for export can be enhanced. There is limited exposure of the business community and supporting commercial services to export activity. Past export awareness programmes have lacked continuity and often, reached only the "converted".

In the present circumstances of the underemployed Australian economy, policies, priorities and programmes need to be considered in the context of their employment impact. Recent research has highlighted the employment generation effects of exports, showing that 680,000 jobs, or 11.4% of total employment (i.e. 1 job in every 9) were generated by exports and that each \$100 million of export income created 5,000 jobs. Furthermore, about 50% of these jobs are generated by the rural sector, about 25% by manufactured exports, 15% by mining and 10% by services exports. These results show that rural export activity (including processed food) and manufacturing export activity are the most significant in terms of job creation.

The low general level of awareness in the Australian community about the benefits of export in terms of income, employment and living standards could account for much of the current indifference towards export in public opinion. A strong psychological association between employment and export would greatly enhance the level of community acceptance of export. A successful "education" policy could, therefore, achieve a high motivation for export.

"Positive adjustment" policies are now well accepted at the international level as an appropriate means for national governments to encourage industries and activities with growth potential, and, hence achieve new direction in trade. These policies could embrace such issues as education, retraining, attitudinal programmes, marketing and incentives. Policies dealing with imports and industry policy would, of course, need to be integrated with policies aimed at the export side. Import and industry policy are not addressed in this paper.

Australia's poor trade performance is closely linked to the basic composition of its exports: 60% of the gap between Australia's export growth rate and the world average is explained by Australia's specialisation in low processed commodities (agriculture and minerals). On the other hand, Australian exports of manufactures are small and growing slowly in world market terms.

Agricultural exports have significant employment effects, and while trade policies designed to increase volumes and prices of Australia's traditional agricultural exports remain highly desirable, the outlook for this is difficult, at least in traditional markets. Strategies designed to increase volumes and prices of minerals are also highly desirable - but the employment yield of such gains are relatively less. From an employment viewpoint, the challenge is to upgrade the significance and size of Australia's manufacturing and services sectors.

Some broad strategies can readily be identified for improving Australia's export performance. These are:

- a) effect changes in export composition to more closely parallel world demand (i.e. more manufacturing and services).
- b) expand market opportunities in comparative advantage industries.
- c) improve export "competitiveness", both in cost terms and in respect of non-price factors.
- d) accelerate marketing efforts in those markets which are growing quickly (e.g. Western Pacific Region, Middle East).

- e) achieve real price gains for exports and improve the basis on which (bulk) commodities trade is conducted.
- f) continue to address internal factors affecting export performance (e.g. export franchises, R & D etc.).
- g) undertake policies that will enhance the returns from exports of services (e.g. shipping, insurance, etc.)
- h) enhance the environment for trade in the community, business, unions and government through broad "education" and related public awareness initiatives.

Trade union attitudes in support of export have not been tapped and, generally, union attitudes have in the past been remote from the mainstream of government policy and departmental operations. The trade union movement could be expected to support an export policy designed to enhance employment opportunities.

Considerable scope also exists to work more closely with the states on a joint basis to develop export oriented activities.

The policy and administrative instruments dealt with in this paper relevant to achieving the new export strategy are macro-economic, multi-lateral, bilateral, marketing, incentives/promotion and regulatory.

In the macro-economic environment, some key economic variables e.g. costs and the exchange rate, have decisive impact on the achievement of trade objectives. Trade considerations should be central to these considerations.

Multi-lateralism has in the main benefited large economies with major manufacturing capabilities. Only limited gains have been achieved through multi-lateralism in those areas of world trade where Australia's comparative advantage is greatest e.g. agriculture. Given the composition of Australia's trade and the distinct possibility that the further development of product-by-product international management of trade is almost certain to work against Australian interests, it is necessary to press in international trade forums for the freeing up of trade, particularly in the field of agriculture. International commodity agreements are an important aspect of multi-lateralism for Australia. Its interests are served by involvement in this form of activity provided the objective of increased market share and real price gains is not obscured. As this suggests, there is a need to review fundamentally Australia's policy on GATT as part of an overhaul of multi-lateral policies generally.

Bilateralism, as practised by Australia, has been mainly the negotiation of trade agreements and bilateral discussions of trade issues and problems. Given that major trading nations

have been vigorously practising bilaterlaism while paying lip service to multi-lateralism over the last three decades, it is clear that Australia must pursue an effective policy of bilateralism.

Marketing is the instrument in Australia's trade armoury which needs strong development. That is, Australia must become buyer rather than seller oriented. A strategy to increase market share must have as its basis an explicit and strong marketing plan which would identify target markets in order of importance, develop a market "segmentation", a portfolio of selected products and an execution plan. This work has already begun (e.g. China Action Plan, Japan Market Strategy).

Incentives/ promotion can only achieve maximum effectiveness if deployed in support of targeted bilateral and marketing objectives rather than in support of generalised across the board schemes.

The chief regulatory instrument being deployed at present within the Department of Trade is export control on minerals. Export controls have achieved some measure of success in securing fair and reasonable market prices for minerals and energy exports (with consequent employment gains through the income effect) but would be more effective if deployed within a co-ordinated policy framework.

Maximising the employment contribution of trade would involve a basic reappraisal of traditional attitudes. In the future, employment considerations will need to be carefully analysed in the assessment of trade issues.

Australia's objective must be to make exports central to the thinking of business, unions and government through the aggressive pursuit of systematic and imaginative programmes.