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ASIA-PACIFIC ECONOMIC SURVEYS: AUSTRALIA

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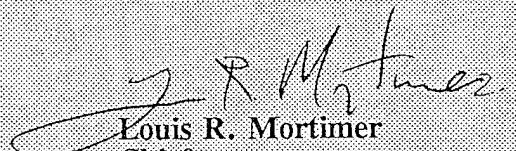
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ASIA-PACIFIC ECONOMIC SURVEYS: AUSTRALIA

SUMMARY STATEMENT

Australia experienced a slowdown in economic growth during 1986. There were two principal reasons behind the loss of momentum. First, in spite of an increase in export volume over 1985, declining prices for agricultural and mining commodities resulted in a net loss and a worsening of the country's current accounts deficit. Second, the government was obliged to cut back a number of federal programs and adopt tight monetary and fiscal policies in an attempt to correct the balance of payments problem. In the near term it is unlikely that international market conditions will favor Australia without some restructuring of the economy. The economic strategy of Prime Minister Robert Hawke and Treasurer Paul Keating should help to reduce the country's foreign trade deficit, but reduced government spending will force the private sector to increase investment, improve productivity, and expand domestic and foreign markets to promote higher rates of economic growth in the future. For the next year or two, Australia is likely to face higher unemployment and inflation rates as the government works to promote import substitution and service the external debt. In the long term, the growth of the economy will depend on world demand for raw materials, the effectiveness of new government programs designed to promote exports and market diversification, and the private sector's commitment to improving cost effectiveness and introducing capital improvements and new technologies.

ECONOMIC GROWTH DECLINES IN 1986

The gross domestic product (GDP) increased by 4 percent in 1985. GDP growth in 1986 is expected to be around 2 percent. Predictions for 1987 are mixed. It is likely that GDP growth will be lower in 1987 than in 1986, and there is the possibility that Australia will slip into a recession later in 1987.

GOVERNMENT PROMOTES FOREIGN INVESTMENT IN DOMESTIC MARKETS

The Hawke Administration is attempting to reduce the public debt and foreign trade deficit by liberalizing foreign investment in the domestic economy, promoting exports, discounting wages, and reducing government spending on social programs and defense. Recent policy changes have eliminated many restrictions on foreign ownership of local ventures and have opened new markets to foreign businesses. It is hoped that these measures will encourage the development of new industries and technologies and create jobs for Australians. In 1985 the Australian dollar was devalued to promote demand for Australian products. Although this action had the desired result, the trade

deficit for the fiscal year ending on 30 June 1986 was larger than expected. To counteract this development, the government proposed to eliminate the indexation system that tied wages to cost of living increases, and introduced cuts in federal spending on defense, education, health, welfare, foreign aid, and assistance to the state governments.

CURRENT ACCOUNT DEFICIT WORSENS

Australia's current account deficit for the fiscal year ending on 30 June 1986 was US\$9.1 billion. This figure represents about 6 percent of GDP, up from 4.6 percent in the previous year. The government is predicting that the deficit will worsen before it gets better because commodity prices for a wide range of mining and agricultural products remain depressed with little likelihood of a resurgence taking place in the near future.

Although the external debt increased as a percentage of GDP from 24 percent in 1984 to 37 percent in 1986, Australia has sufficient reserves of foreign currencies, gold, and other assets to service the debt for the next several years. The fact that the increasing debt and slower economic growth has not precipitated a noticeable decrease in foreign investment is a good sign. This indicates that private investors in the United States and other countries with interests in Australia believe that despite the country's current economic difficulties, the government and private sector will be able to meet financial obligations to their firms.

MAJOR PRODUCTION AND FOREIGN TRADE ITEMS

The manufacturing sector accounts for about 16.7 percent of GDP, transportation and communication for 7.1 percent, steel and other primary production goods for 7 percent, and the construction of non-residential buildings for 5.6 percent. Approximately 4.5 percent of GDP goes to public administration and defense. The remaining 60 percent of GDP is concentrated in the areas of commerce, finance and other services, the housing industry, and public utilities.

Mining and agriculture accounted for 50 and 38 percent, respectively, of Australia's total exports in the 1985/86 fiscal year. The major mining exports were coal, iron ore, oil and petroleum products, aluminum, uranium, and gold. The most significant agricultural exports were wheat, wool, meat, sugar, barley, fish, and cotton. About 50 percent of the items imported in the same fiscal year were classified as machinery and transport equipment. Other import items included chemicals, fuels, office machinery, appliances, and textiles.

PRINCIPAL TRADING PARTNERS

In 1985, about 60 percent of Australia's exports went to industrialized countries, with 28 percent going to Japan and 10 percent to the United States. In the same year about 80 percent of Australia's imports came from industrialized countries, with 23 and 22 percent of the total coming from Japan and the United States, respectively. Other trading partners among the industrialized countries include the United Kingdom, New Zealand, France, West Germany, and Italy. Two-thirds of Australia's trade with developing countries is concentrated in the Asia and Pacific region. Principal trading partners among the developing countries include China, Hong Kong, South Korea, Singapore, and countries in the Middle East. Australia has very little trade with the Soviet Union and Eastern Europe.

MAJOR ECONOMIC PROBLEMS

Both government and private investment on capital improvements and new technologies in the manufacturing sector should be increased to improve Australia's competitiveness. Traditionally, Australia has chosen to maintain a widely diversified manufacturing sector utilizing small-scale factories to meet domestic demand. A more aggressive export policy concentrating on industries in which Australia can utilize its vast resources of raw materials would promote a more sound economy. Unless world commodity prices for a wide range of mining and agricultural products improves in the near future, many Australian mines and farms will have to cut production or go out of business. This will place an additional burden on the federal budget by increasing unemployment.

ECONOMIC IMPORTANCE TO THE UNITED STATES

Australia offers a lucrative market for American goods, services, and investment in the transportation and mining sectors. Australian interest is increasing in American computers, biotechnology, pharmaceutical goods, and manufactured high technology products. While the current economic slowdown may force a reduction in imports of motor vehicles and mining equipment, it is less likely to affect the other imports because domestic production is low or non-existent.

DEFENSE SPENDING ABOUT 3 PERCENT OF GDP

The Hawke Administration allocated US\$5.2 billion to defense for the 1986/87 fiscal year. This represents 9.9 percent of the federal budget and 2.9 percent of GDP. Thirty-three percent of defense expenditures were to be spent on upgrading military equipment and installations. The government plans to close some defense plants and sell land owned by the military as part of its budget cuts. The major end items scheduled for domestic production include 75 fighter aircraft, 2 guided-missile frigates, 30 helicopters, and 67 trainer aircraft. Additionally, Australia plans to improve the Defence Integrated Secure Communications (DISCOM) system, purchase various types of antiship and air-to-air missiles, and continue research on a new type of submarine. Defense Minister Kim Beazley believes that defense spending in the 1987/88 fiscal year will be more than 3 percent of GDP.