

“THE TYRANNY OF DISTANCE”: A CLOSER LOOK
— The Future of Australia’s Economy —

Tsuneo Nakauchi

I Introduction

Australia, a country “so close yet so far” from the cultural sphere of the West. In other words, Australia faces the dilemma of being a country European oriented in culture yet physically isolated from Europe in the Pacific region of the Southern Hemisphere. This is, as Geoffrey Blainey has eloquently phrased it, “the tyranny of distance.”⁽¹⁾ The United Kingdom entering the EC created greater distance between Australia and its former homeland, placing Australia in a position to look towards the Pacific region.

Until some ten years ago, Australia boasted one of the lowest inflation and unemployment rates in the OECD. Dynamic changes in the World economic environment, had hurt Australia to the extent that both inflation and unemployment topped 10% in mid 1983. Faced with a poor economy and cultural isolation, it would seem Australia is “left in the dark.” But in turning the “tyranny of distance” into productive distance Australia could revitalize her economy. This could be realized through employment of its Western cultural inheritance in conjunction with its abundant primary resources, and development in harmony with the countries in the region. Specifically, expansion of the primary and service sectors within the industrial structure and modification in the trade structure should yield benefits to the Australian economy in the future.

II Industrial Structure

The first impression one would receive of the Australian economy, is

that it relies heavily on its primary sector — especially wool, wheat and minerals. In 1980, however, merely 11% of the GDP was accounted for by the primary sector. Even in 1960, it was 15% of the GDP, a decline of five percentage points in 20 years. According to World Bank figures, agriculture was only 5%. In other words, Australia is clearly not an agricultural based economy.

The secondary sector accounted for 29% of the GDP in 1960 and 20% in 1980, a decrease of nine percentage points, a sharp contrast to the rapid industrial development of many countries in the Pacific region. Actually, it is the tertiary or service sector which accounts for the largest portion of the GDP. In 1960, services were 60%, then 20 years later in 1980 it had increased to 72%.

Looking at the industrial structure in absolute terms in comparison with Japan, Australia had a GDP of roughly US\$17 billion and Japan with a GDP 6.6 times greater amounting to US\$1.1 trillion. In 1960, Japan's 2.6 times greater than that of Australia, clearly indicating the low growth rate of Australia. According to Australian government statistics, the real GDP growth rate was -2.0% in fiscal year 1982/83. The average growth rate over longer periods of time (in constant dollars) decreased as well: 5.6% from 1960-70 to 3.3% the period 1970-81. The respective figures for Japan were 10.4% and 4.5%, a decline reflecting the impact of the oil shock on the industrial nations. In any case, Japan's GDP growth rate was higher than that of Australia in any given period of time.

In order to increase economic activity, it would be desirable to increase saving and investment, and reduce the investment-saving gap. The I-S gap, 3% of the GDP, which Australia maintains, is not necessarily the problem. It would seem the decline in domestic investment from 6.7% in the 1960's to 1.8% in the 70's is the significant problem. In comparison to Japan, both Australia's investment-GDP and saving-GDP ratio are ten percentage points lower.

Stagnant growth in investment and production has made Australia vulnerable to rise in prices. In the late 1970's prices of consumer goods rose to 10%. In lieu of such a situation, the basic policy line in the long

run should be to increase productivity, especially agricultural commodities, eventually leading to balanced trade.

III Trade Structure

Let us look at Australia's dependence on trade measured in terms of the GNP-trade ratio. In 1979 Australia's GNP marked A\$112.7 billion, and exports and imports were A\$21.6 bil. and \$20.9 bil. respectively. Trade reliance was calculated as 19.2% for exports and 18.6% for imports. The figures for Japan were lower at 11.7% and 12.6% respectively. In 1967, prior to the oil shock, Japan's respective trade dependence ratios were at 9.8% and 9.6%, whereas Australia's figures 14.9% and 17.4% for the same year were substantially higher. It is evident that Australia's reliance on trade has increased substantially over those twelve years.⁽²⁾ The majority of the exports comprised primary commodities and related processed goods. In fiscal year 1982/83, total exports amounted to US\$20.7 bil. of which 14% or \$2.9 bil. was accounted for by coal. Wool and iron ore follows with shares of 6.7% each, followed by wheat at 6.2%. Beef and non-ferrous metals each under 6%. Refined oil products were about US\$1.1 bil. covering 5%. Sugar at 2.5% and iron-steel 2.2%. The preceding ten commodities accounted for approximately 55% of total exports.

The largest share of imported goods were oil and oil processed commodities at 14%. The total import was roughly \$20.5 bil., hence a trade surplus of \$0.2 bil. The ten largest import commodities (Table 4) totaled 55% of the imported goods. Imports included machinery-transport equipments 8.3%, general machinery and parts 5.3%, special machinery-electrical equipment, etc. Manufactured commodities continue to decline as a share of GDP and there is little sign of a substantial decrease of imports of those commodities.

Deficit in the trade balance due to increasing imports of manufactured goods and the deficit in the service sector has left the current account in a greater deficit. To clear the current account of the deficit, Australia should pursue a policy to increase exports or increase domestic production in an attempt to promote an import substitution policy. Australian

manufactured goods, however, are not considered competitive in the world market; further, abolishing protective tariffs is difficult. The automobile industry, for example, is a typical case where efforts to increase the effectiveness of protectionist policies has led to the promotion import substitution policies in manufacturing industries. As a consequence, economies of scale are not realized and productivity rates remain low, therefore, such manufacturing industries cannot serve as a factor in expanding exports.

In other words, this leaves Australia with a policy alternative of expanding its manufacturing industries, where comparative advantage exists, in coordination with its import substitution policy. At the same time, it should develop the primary sector already possessing a competitive edge and expand trade exports. It should be noted that those services that are export competitive should be expanded. This would include tourism. In the future, Australia should utilize the advantages in finance and the English language to develop an industrial structure based on high-technology and the primary commodities industry.

An attempt to reverse the diminishing trend of the manufacturing industry through artificial protective policies would incur high opportunity costs. Should not Australia select those manufacturing sectors based on natural resources and agriculture, and not the manufacturing sectors in general which do not necessarily possess a comparative advantage? As a general policy line in the long run, Australia should contemplate on the possibility of "overlooking" the manufacturing sector and concentrate on developing their primary and tertiary sectors. Rather than producing for a small scale domestic market and developing inefficient small scale industries, it would be in their interest to expand their natural advantage in the primary sector and related industries into the world market. Funds used to protect the diversified and inefficient general manufacturing industries under the import substitution policy should be redirected towards educating a population geared in developing a high-technology oriented primary and service sectors.

The largest of Australia's exports trade partners was Japan in fiscal year 1982/83 with US\$5.6 bil., accounting for 27% of Australia's total

exports of \$20.7 bil. (Table 5). The United States held 10%, New Zealand and the United Kingdom at 5% each, Korea slightly under 4% and China roughly 3%. Taiwan and West Germany 2.5% each, Papua New Guinea 2%. In essence, Australia's export markets were predominantly oriented towards the Pacific nations.

The five largest import partners, in order, are the United States, Japan, United Kingdom, West Germany, and Saudi Arabia. Japan and the United States accounted for over 40% of Australia's imports. It is evident that Australia's trade relations are shifting from those with the United Kingdom and other European countries to the Pacific region.

Australia accounts for little under 6% of the world's iron ore reserve with 15.8 bil. tons in 1981 (Table 6). Production is 80 million tons which is roughly a tenth of world production. Australia also maintains a large mineral reserve and produces 64.2% of the world's zircon, 63.9% of the rutile, 60.4% lignite, 29.9% bauxite, 23.2% titanium, 11.9% nickel, 11.2% lead, 9.8% iron ore, etc.

The abundant mineral resources which could be used to import foreign goods is one of Australia's strengths. Mineral, fuel and metal exports totaled \$9.5 bil. in fiscal year 1982/83. The ability to produce a portion of the fuel required to process metal commodities is an advantage especially considering the cost of importing fuel. Australia, however, does not necessarily process within its borders. In 1982, \$3.1 bil. worth of minerals were imported in contrast to A\$8.0 bil. of raw mineral exports (Table 7). The import of crude oil is one major factor, yet the lack of processing facilities and the inefficient costs of processing are the main causes of such imports.

In summary the primary and tertiary sectors of Australia's industrial structure are of most importance. Judging from the trend in trade, the primary sector, specifically the mineral, possesses a competitive edge. Australia should develop a manufacturing-processing industry based on the sectors with comparative advantage, and educate its population and import technology from the advanced industrial nations in order to establish a "post-industrial society."

IV Policy Issues

In August, 1984, the Hawk administration presented the 'Budget Statements' for 1984/85. The budget statement, or the "Keating budget" as it was popularly known, reflected the position of the Treasury and its Minister, Keating.

During the budgetary process, hostility arose between the Secretary of Treasury, John Stone, and the Director of the Industry Bureau, Brian Jones, over the industrial policy. Stone stipulated that problems concerning tax reform are within the jurisdiction of the Ministry of Treasury and that tax reform is not to be introduced by other ministries, for in the past, discretion over macro-policy issues have been taken independently by the Treasury.

Brian Jones, a well known industrial economist, presented a 101-page tax reform plan to the Federal Government Economic Planning Advisory Council, which essentially called for the necessity of industrial protectionist policies. For example, the abolishment of double taxation was emphasized. The conflict between Stone and Jones was not simply a form of friction amidst their respective ministries; it holds greater meaning for the future of Australia's economic development.

Just prior to the presentation of the budget plan, John Stone resigned from the Ministry of Treasury in opposition to the protectionist policies of the present administration. In a dramatic resignation speech (Shann Commemorative Address) presented at his Alma Mater, West Australia University, he warned of similarities between the present economic situation and the depression of 1927. There are three points on which the present Australian economy and Shann's warning of 1927 are similar; they are financial mistakes, protectionist policies and a stubborn labor union.

The financial mistake was the increase in debts. The financial policy had undertaken an accumulation of debts which would adversely affect the growth of the economy. Also a default on the part of the developing nations could become an indirect factor in hindering the flow of trade. The protectionist policies only worsen the situation. According to calculation made by the Trade Ministry, the competitiveness to Australia's

manufacturing industry fell from 100 in 1971 to 97.6 in 1982 in terms of an index including five other Export countries.¹³⁾ The competition in the market has diminished: even the primary sector which accounts for 66% of the exports has not indicated any positive signs of growth, whereas manufacturing productivity has increased in other countries: 23% in the United States, 11% in Japan, and 6% in W. Germany. Public debt has increased substantially from 2% of the GDP in 1969/70 to 8% in 1983/84. Without export earnings the government is 'hard pressed' to return the financial debts.

Such government intervention into the financial and market structures has not been witnessed since 1960. Furthermore, labor union intervention has apparently caused problems. Jones asserts that the 'intransigent' labor union has not exhibited any understanding of the economic problems the government has faced over the past fifteen years. Instead, the labor party continues to demand better working conditions and funding. In short, Jones advocates a return to the principles of free trade: the entrepreneurial spirit and the spirit of free competition.

The author would like to make a slight digression, and share his experiences and observations from two trips to a Nissan automobile manufacturing plant in Australia. The author had the fortunate opportunity of making two visits, the first being in July of 1982 and the second two years later in August of 1984. Although these were brief visits and the time devoted to the survey and interviews in the factory was limited, it was nonetheless significant in forming a visitor's (tentative) impression with regard to the problems and constraints of these factories. The basic intent was to see to what extent the protective policies in the manufacturing industries could be justified.

The factory is located a few minutes from West All Station, about a thirty minute train ride from Melbourne's Flinders Station. The factory is owned by Nissan Motor Mfg Co. which is one hundred percent owned by the Japanese Nissan Co. The factory, located on 297,000 square meters of land was obtained from Volks Wagen some eight years ago for ten billion yen. Production per day amounted to 215 cars, among which 20 were Volvo and 40 Stanza, but the production of the latter has been

terminated in 1982. Two thousand workers are employed who stay for an average period of six years.

Mr. Mitsuyasu Iwabuchi, Deputy Managing Director had just spent eighteen months on the site preparing and planning a centralized line system. He has pursued with enthusiasm the policy aimed for towards the rationalization of the line system. Lounges were built here and there within the factory and a proposal system was introduced for the workers. In the lounges, I found bulletin notices in five different languages; some immigrant workers apparently did not have command of the English language. Mr. Iwabuchi's philosophy of management was to maintain a humanistic touch with the workers, which has been a Japanese tradition nourished by the rice farmers' working habits. To encourage fellowship among workers seems to have proved to be a productive managerial policy. He seems to have felt a little pride when he showed me the first carpeted workers dining hall in Australia. Unlike Japanese trade unions which are characteristically company oriented, Australia's unions are under strong horizontal influence of the same kind of workers. Paint workers have the strongest trade union and when strikes occur, they tend to become radical.

The domestic purchase ratio was 85 percent, and cast iron was found to be procured at Mitsubishi Motor Co. near Adelaide.

With respect to the potential of the products to be exported to the European countries in the future, the outlook seemed rather bleak.

The factory ran on a two shift system: i) 7:00 a.m.—3:20 p.m. and ii) 3:10 p.m.—11:30 p.m. The inventory control was operated manually without the use of computers. The company had another factory of 270,000 square meters in Dandennon which was about to begin operation.

In two years, the number of employees increased by 10% from 2,000 to 2,200. Production remained nearly the same at 200 cars but the centralized line system, now installed, had a capacity of producing 400 cars. Another change was the production of four cylinder engines which are sent to Japan. It is interesting to note that in order to establish economies of scale, the automobile producers in Australia have developed

an interdependent relationship. For example, GMH buys Nissan engines and Nissan purchased from GMH door production technology but must not produce over a set number of automobiles. These mergers have accomplished a form of division of labor within the manufacturing process. In place of painters, robots were installed without resistance.

In reference to Melbourne's Consul General Hayakawa's opinion, it would be unreasonable to develop the manufacturing industry in general. The development of natural resource and agricultural based industries, new materials (ceramics, polymers, etc.), and high technology should prove to be promising. Australia should introduce scientific technology to improve materials, develop high-technology, and create crops which could be raised on Australia's saline land.

Under the Hawk administration, unemployment fell to 9% and in 1984 the CPI lowered to 3.9%, however, Australia's problem is not solved. According to P. Robinson of *The Australian Financial Review*, there is a substantial number of unemployed people who were not recorded. Furthermore, unemployment is prevalent among the young. It is estimated that 25% of the graduates from high school and college are unemployed which is truly causing a serious problem. More important is the fact that even if the young population find jobs, they do not necessarily have a 'career.'

Notes

- (1) Geoffrey Blainey, *The Tyranny of Distance*, Sun Books, Pty Ltd., 1966, 1983.
- (2) World Bank, *World Tables*, 3rd ed., 1983, Johns Hopkins Press.
- (3) Department of Trade, *International Research Memorandum*, No. 7, "Australia's International Competitiveness," Nov., 1983, p. 80.

Table 1 Distribution of GDP among Sectors (%)

Sector	1960-61	1980-81
Primary Sector	15.0	10.8
Agricul., forestry, & fishery	13.1	6.3
Minerals	1.9	4.5
Manufacturing	28.8	19.7
Services	58.6	72.3
Electric, gas & water	3.2	3.3
Whole sale/retail	14.9	14.0
Construction	7.8	7.3
Transport, storage & communicat.	8.2	7.6
Gov't, defense	3.5	5.1
Other	4.4	27.1
Residential	4.4	8.0
(-) Bank service charge	2.3	2.8
TOTAL	100	100

Source: Australian Bureau of Statistics: *National Income and Expenditure 1981-82* (and 1971-72).

Table 2 Australia: Basic Indicators & Statistics

	1979/80	1980/81	1981/82	1982/83
Population (mil)	14.7	14.9	15.2	15.4
Labor (mil)	6.6	6.7	6.8	6.9
GDP (\$US bil)	127.9	151.9	163.5	151.0
GDP capita (\$US)	8703	10178	10769	9819
GDP real growth (%)	1.2	3.6	2.5	-2.0
Consumer price rate (%)	10.1	9.4	10.4	11.5
Export	20.7	21.7	21.1	19.4
Import	-17.6	-22.3	-24.7	-20.3
Bal. Trade	3.1	-0.5	-3.6	-0.9
Curr. Acc. Bal.	-2.3	-6.3	-9.8	-5.9

Source: Australian Bureau of Statistics: *Quarterly Estimate of National Income and Expenditure; The Labor Force; Balance of Payment; CPI.*

Table 3 Australia and Japan: GDP and Investment-Saving

	Year	Australia	Japan
GDP (\$US mil)	1960	16,370	44,000
	1970	148,060	1,039,980
	1981	171,070	1,129,500
Invest./GDP (%)	1960	29	33
	1980	26	31
Saving/GDP (%)	1960	25	33
	1980	23	32
GDP growth rate (%)	1960-70	5.6	10.4
	1970-81	3.3	4.5
Invest. growth rate	1960-70	6.7	14.6
	1970-80	1.8	3.1

Source: World Bank, *World Development Report 1983*.

Table 4 Australia: Major Trade Commodities

	1982/83	
10 Largest Export Com.	\$US mil.	ratio
Total Export	20,703.5	
Coal	2,833.4	13.9
Wheat	1,292.8	6.2
Wool	1,379.2	6.7
Iron ore	1,395.9	6.7
Aluminum	1,007.4	4.9
Beef	1,205.4	5.8
Sugar	517.4	2.5
Oil products	1,070.8	5.2
Minerals	453.8	2.2
Non-ferrous metal	1,174.4	5.7
10 Largest Import Com.		
Total Import	20,463.8	
Oil & oil prod.	2,889.0	14.1
Transport. (road)	1,696.1	8.3
Special mach.	1,012.4	4.9
Other transport.	580.4	2.8
General mach.	1,080.8	5.3
Textile & related	949.2	4.6
Electrical equip.	913.6	4.5
Motor	634.5	3.1
Office equip.	768.6	3.8
Communication equip.	758.3	3.7

Source: Australian Bureau of Statistics.

Table 5 Australia: Major Trading Partners

1982/83		
Export (destination)	\$US mil.	%
Total Export	20,703.5	
Japan	5,597.5	27.0
United States	2,102.4	10.2
New Zealand	1,084.3	5.2
Great Britain	1,106.1	5.3
Korea	778.3	3.8
China	604.2	2.9
Singapore	687.1	3.3
FRG	514.8	2.5
Taiwan	519.6	2.5
Papua New Guinea	477.0	2.3
<hr/>		
Import (from)		
Total Import	20,463.8	
United States	4,473.0	21.9
Japan	4,229.0	20.7
United Kingdom	1,376.6	6.7
FRG	1,218.7	6.0
Saudi Arabia	916.6	4.5
New Zealand	651.6	3.2
Singapore	562.9	2.8
Taiwan	609.6	3.0
Indonesia	526.8	2.6
Italy	505.2	2.5

Source: Australian Bureau of Statistics.

Table 6 Australia & World: Major Minerals and Fuels (1982)

	(million tons)					
	Reserves			Production		
	Australia	World	Ratio	Australia	World	Ratio
Bauxite	2,578.0	15,400	16.7	26.0	87.0	29.9
Coke	30,400.0	631,000	4.8	110.0	2,811.0	3.9
Lignite	36,200.0	254,000	14.3	33.0	990.0	3.3
Copper	5.3	511	1.0	0.23	8.3	2.8
Gold (ton)	342.7	37,325	0.9	18.4	1,220.0	1.5
Ilmenite	41.5	742	5.6	1.3	5.6	23.2
Iron ore	15,580.0	267,000	5.8	85.0	863.0	9.8
Lead	13.3	165	8.1	0.39	3.48	11.2
Manganese	490.0	4,899	10.0	1.41	24.60	5.7
Monazite (1000 tons)	329.1	7,000	4.7	13.28	22.0	60.4
Nickel	2.0	65	3.1	0.07	0.59	11.9
Rutile	9.2	120	7.7	0.23	0.36	63.9
Tin (1000 tons)	206.0	10,000	2.1	12.3	201.9	6.1
Tungsten (")	93.0	2,903	3.2	3.5	52.35	6.7
Uranium (")	314.0	1,561	20.1	2.9	44.10	6.6
Zinc	18.8	240	7.8	0.52	6.1	8.5
Zircon	13.4	46	29.2	0.43	0.67	64.2
Petroleum						
Crude (mil)	261	106,634	0.2	22.84	3,243.1	0.7
Natural gas (billion)	624	81,916	0.8	11.27	1,637.2	0.7

Source: BMR (Bureau of Mineral Resources), Australian Mineral Industry, *Quarterly*, 35 (4) 1982.

Table 7 Australia: Import/Export of Minerals

Principal Exports	1982		1983	
	Quant.	Value (\$A 000)	Quant.	Value (\$A 000)
Alumina (000t)	5,951	1,103,255	6,356	1,179,763
Alumina (ingot ton)	156,068	168,253	220,989	311,348
Coal (black) (000t)	46,724	2,526,373	61,046	3,332,100
Copper (ton)	115,664	156,272	158,448	275,506
Gold (kg)	13,076	135,844	20,614	269,905
Ilmenite (ton)	893,333	25,188	827,731	25,012
Iron ore (000t)	73,056	1,439,922	74,288	1,577,158
Iron, ingot steel (000t)	457	65,004	903	126,413
LPG (000t)	1,367	327,970	1,564	460,051
Lead (ton)	412,655	336,141	409,732	412,945
Nickel (ton)		393,234		321,052
Rutile (ton)	199,296	50,876	232,200	56,731
Salt (000t)	4,124	54,796	4,534	68,842
Tin (ton)	7,792	92,531	5,586	72,788
Tungsten (ton)	4,939	35,083	3,888	20,289
Uranium/Thorium (ton)	5,459	415,047	3,279	296,008
Zinc (ton)	525,216	318,404	634,870	380,952
Zircon (ton)	405,215	43,064	382,818	45,046
Other mineral (ton)		318,568		415,448
Principal Imports				
Aluminum (ton)	13,700	16,653	5,225	8,191
Asbestos (ton)	20,200	14,734	10,114	8,776
Clay (ton)	68,101	6,833	40,396	5,133
Diamonds (gem: m.c.)	167,590	31,608	72,007	30,724
Diamonds (indus: m.c.)	1,026,476	5,620	1,120,615	4,862
Gold (kg)	531	5,743	3,161	27,946
Ingot steel (ton)	18,564	15,520	17,290	13,197
Nickel (ton)	1,349	7,858	356	1,957
Oil, crude (000m)	13,552	2,777,878	8,684	1,764,130
Phosphate (000t)	1,924	100,368	2,198	113,573
Potassium fertil. (ton)	226,459	22,791	189,956	20,064
Sulfur (ton)	458,933	39,038	392,581	32,930
Other		53,882		53,358