THE NEIGHBOURS ARE STIRRING...

ARE WE SMART ENOUGH TO TAKE THE LEAD?

by IAN C. BUCHANAN

Economic outlooks are shifting dramatically as world economic influences trigger an unprecedented growth period in the Asia-Pacific region. These predictions may hold a solemn warning for Australia.

The Asia-Pacific region accounts for 32 per cent of global population and 18 per cent of gross national product. Since the Second World War it has been the fastest-growing region in the world – but the most spectacular relative growth has occurred in the past five years.

One graphic way to illustrate this development is to show growth not in terms of GNP but in terms of energy consumption. Over the 10 years between 1975 and 1985, energy consumption in the developing market economies of the Asia-Pacific region grew at 7.6 per cent compound a year, 360 per cent faster than the 2.1 per cent growth for the world as a whole and 1,900 per cent faster than the 0.4 per cent of the industrialised countries in the Pacific region.

Although the absolute growth rate of energy consumption in the developing Asia-Pacific region slowed in the 1980-85 period, it still grew at 5.4 per cent compound annual growth, 390 per cent faster than the rest of the world (1.4 per cent), in a period when energy consumption in the industrialised Pacific was falling by 0.4 per cent a year.

An examination of the recent boom years shows that the winners have been the exporters of manufactured goods — Japan, China and the east-Asian newly industrialised countries (NICs), which collectively have a trade surplus, while the remaining countries in the region, principally primary-product exporters, collectively have a trade deficit.

The spectacular recent growth of these manufactured-goods exporters has been driven by the overvalued US dollar and a consequent $US122 billion increase in US imports of manufactured goods between 1983 and 1986.

Japan and the east-Asian NICs captured 46 per cent of this growth, and their current accounts climbed into a large surplus with the US, resulting in substantial imbalances in the global trading system.

This export boom has in turn created an unprecedented demand for imports. Australia's challenge today can perhaps be summarised as follows:

- Australia is perceived not as part of an Asian "zone of economic complementarity" but as the "quarry, farm and beach" of the Asia-Pacific region.
- Almost 80 per cent of Australia's exports are primary products. About 60 per cent of these products go to Asia, principally east Asia.
- Five of Australia's top 10 exporters are Japanese-owned.
- Primary products exported from Australia to Asia are being processed into finished products for both domestic use and re-export, mainly to the US, which is the destination of almost 40 per cent of the total exports of Japan and the NICs. Only 11 per cent of Australia's exports go directly to the US.

Despite the recent cyclical boom,

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the prices of primary products, including energy, have been declining significantly relative to the prices of manufactured goods. We see this structural decline continuing.

Let me paint a scenario:

- a significant slowdown in the global economy late this year;
- an accompanying decline in primary product prices;
- a turnaround in America's $US130 billion trade deficit, brought about by tougher US import controls;
- the major currency realignment which has seen the $US depreciate by 50 per cent against the east-Asian currencies. This has rendered manufactured goods from east Asia relatively less competitive and therefore is slowing the exports, and the economies, of the region.

What is Australia's fall-back strategy?

Developing a successful strategy requires a significant degree of analysis and understanding of the changes under way in the Asia-Pacific region, and in particular the rate at which *yen-yasu* (strong yen) is driving economic integration across the region.

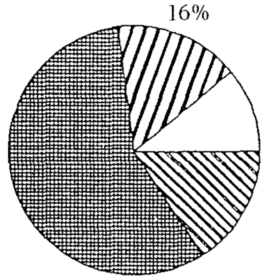
At a recent "10 + 1" meeting of the six ASEAN countries, the three regional NICs, Japan and China, it was reported that:

- in 1985 intra-10 + 1 exports were $US190 billion, growing at 30 per cent compounded annually;
- exports by 10 + 1 to the US totalled $US230 billion, growing at only 7 per cent;
- therefore, intra-Asia-Pacific exports would exceed exports to the US by 1990/91;
- the fastest-growing segment of the intra-Asia-Pacific trade boom is "intra-firm", as a result of Japan's practice of shifting some manufacturing capacity to regional countries with low labour costs.

Japan, which epitomises top-down national commitment to economic development, continues to dominate the south-east and east Asian regions, accounting for more than 70 per cent of the region's GNP growth over the past 25 years and representing fully 71 per cent of Asia-Pacific GDP.

Although there has been dramatic growth across the whole of the Asia-Pacific region, it has been driven by differing underlying forces. There will be an increasing disparity between the performance of countries which have made fundamental structural changes to their economies and those "lucky countries" which have benefited only from their locations or their resource endowments.

Direction of Australian exports (1987/88)



A small number of countries in the region have recognised the structural underpinnings of Japan's success and have attempted to emulate those factors. These countries will slowly catch up as Japan's dramatic growth phase comes to an end.

Other countries have achieved their growth more by luck than judgment, riding on the back of cyclical rises in resource prices and their proximity to the Japanese growth engine.

However, the global economic environment is changing. New competitive forces will require new development strategies if countries in the Asia-Pacific region are to match past successes.

Outlook for Asia-Pacific

The ground-rules for development are altering and will continue to evolve through the remainder of this century and into the next.

The essence of the challenge to Australia is how the nation can maintain its relevance...

Attitudinal change in Asia tends to work from the top down, and the responses of leaders can provide insights into the future strategies and directions of countries in the region. Those national leaders who recognise changes, and who adjust their development strategies, can prosper by taking advantage of the backlog of available technologies and capital.

Led by Japan, the industrialising countries of the Asia-Pacific region are moving aggressively to adapt their economies to strong currencies and a demand-shift of the order of $US170 billion as the US gradually closes its trade deficit.

Japan's strategy, as spelled out by a government paper titled "Toward New Asia-Pacific Cooperation -- Promotion of Multilevel Gradually Advancing Cooperation on a Consensus Basis", is to seek greater economic integration across the Asia-Pacific region, primarily driven by lower manufacturing costs and the need to develop new markets.

This will produce some new and surprising alliances:

- the development of a "greater China" including the People's Republic of China, Hong Kong and Taiwan;
- the economic integration of North Korea, South Korea and the eastern Soviet Union;
- an expanded Asia-Pacific "economic zone", perhaps an informal grouping of the six ASEAN countries, the three Asian NICs, China and Japan.

These new regional groupings will accelerate the development of natural resources in China, the Soviet Union and Indonesia, with consequences for Australia. These new commodity supplies, combined with an expected slowdown of growth in east Asia, constitute the greatest challenge to Australian industry.

Other countries in the Asia-Pacific region appear to be awakening to the threat of becoming permanent second-class citizens; some are casting about for the sense of national unity and national purpose necessary to implement essential, but sometimes painful and politically difficult, structural changes.

The essence of the challenge to Australia is how the nation can maintain its relevance and take a leading position in the development of an Asia-Pacific grouping, and how Australia can build on its natural complementarity with its neighbours to the north and east. □