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Abstract

This paper considers industry policy and manufacturing in Australia by discussing the levels of tariffs and assistance by the Australian state. Australian policymakers have long been fascinated by the rise of East Asia and attempted to emulate a similar high-tech manufacturing industry via neo-liberal deregulation. Such a deregulation was of course never part of the origin of the East Asian miracle until the 1980s. When it did occur however its effects soon became acutely visible in 1997-1998 across Asian economies. The paper does not discuss whether a singular East Asian economic model exists. Nor does it debate the validity of the project apparently contained in the government policy since the 1980s. More to the point, this paper raises the market policy movement that took inspiration from fixed perceptions of the East Asian economic miracle which was frequently (but not necessarily correctly) identified with neo-liberal deregulation. In the paper, the exports of elaborately transformed manufactures, especially during the Howard Coalition government (1996-2007) period, are analysed. What is Australia's trade performance in such manufactures, including elaborately transformed manufactures? What is the debate on the current support mechanisms? Most importantly, what has the 1990s-2000s neo-liberal market governance achieved in Australia? The paper covers these questions and reflects on the nature of Australian manufacturing exports to Japan.

Introduction

In Australia, from the 1970s onwards protection of the domestic market and industry assistance came to be more intensely debated (Jones 2002: 1-7). The late 1970s signalled the 'age of uncertainty' after the 'age of growth' (viz. the post-war period) (Wheelwright 1978: 15). There was too little time for the Australian economy to adjust to the structural fallout (of industries) in the 1980s, and the *ad hoc*, inconsistent and conflicting policy-making that has extended into the 2000s (Jones 2000: 60-61). With the rise of East Asia's export-oriented economies, the pressure on the Australian market kept building up continuously. From the late 1980s Australia's overall share of world exports began declining ever more rapidly, while the East Asian economies were capturing the export markets in the developed world (Pinkstone 1992: 377). Also in the late 1980s Australia began to suffer a decline in its share of world foreign investment flows, while Japan's foreign investment in Asia has continuously increased (EIU 1996: 1-35). This trend of declining foreign investment in Australia continued with the growth in the Chinese economy and its flow-on effects to the economies of Hong Kong, Singapore and Taiwan.

East Asian governments selectively began intervening in their tariff-protected domestic markets to increase their export share in foreign markets (Rodan et al. 1997: chapters 1 and 2). For Australian studies on the region's industrialisation through government intervention see Higgott and Robison (1985) and Robison et al. (1987). In contrast, in Australia from 1987 onwards the intensification of trade liberalisation meant that the mechanisms of support and encouragement (e.g. tax rebates) for manufacturing exporters to retool and retrain lost political support as tariff reductions gained in priority (Capling and Galligan 1992: chapter 1). Hence, the Australian policy of market governance was the

opposite of what was practised in other countries in the region. The Capling and Galligan (1992) study *Beyond the Protective State* is on a par with the Costa and Duffy (1991) book, *Labor, Prosperity and the Nineties* on having faith in the deregulated market, although neither book predicted where that market eventually took Australia. In particular, the decline of elaborately transformed manufactures exports that intensified after the federal election of the first Howard Coalition government is a development without precedent.

The Garnaut Report, *Australia and the Northeast Asian Ascendancy*, argued that tariffs and industry-assistance programs were the most economically debilitating policy mistakes of twentieth-century Australia (Garnaut 1989: 211). However, at the time of the report's publication, the highly successful East Asian markets were well protected in comparison with the Australian market. Even so, The Garnaut Report advocated minimum control on capital flows into and out of the Australian market as the way to replicate the Asian market miracle (Garnaut 1989: 103), although it refrained from offering a comprehensive policy blue-print to assist export manufacturers. Financial deregulation required minimum control on capital movement, but did not provide a national policy to maintain a competitive manufacturing base. As discussed below, this problem became more acute with the decline in exports of elaborately transformed manufactures (ETMs) which are higher value-added exports, after the cancellation of industry-assistance programs in 1996.

Have these post-1996 developments that led to an decline in market intervention led to an increase in exports of ETMs? This is discussed below. Also presented below are the trade deficit figures for, not just for the ETMs, but the entire manufacturing sector. As shown below, the deficit for the entire manufacturing sector has increased in the period 1992-1993 to 2007-2008 while industry assistance reduction continued. The Rudd Labor government formed in late 2007 revised industry assistance programs and this is visible in the statistics for 2008-2009 in the below tables. This paper focuses on the 1996-2007 Howard Liberal/National Coalition government.

Beilharz argues that Garnaut had an image of a type of manufacturing that was 'less British, more Japanese style'. He adds that 'the leading role of the Japanese state in its economic miracle [, however,] simply slipped under the hyperbole. This has not prevented The Garnaut Report from becoming an axiomatic reference point to which both Federal government and opposition genuflect' (Beilharz 1994: 142). Australia's proximity to the market models in Asia was of no educational benefit to the policymakers in Canberra. Australia's neo-liberals paid no attention to the early tariff-based manufacturing growth in the East Asian economies.

Beilharz argues the following historical reason for the types of protectionism in Australia:

Australian political culture has helped to construct a particular kind of society on the basis of social or domestic, and economic or international senses of protection. Starting from the sensibility that the Australian economy and society are small, and therefore vulnerable, this kind of argument not only centres on culture but also on power, which is always asymmetrical in its distribution ... Australian ... institutions of economic and social protection ... have ... helped construct a polity and a way of life that is relatively advantageous to very many of its citizens, larger as well as smaller. This was, after all, the logic of new protection itself, and however flawed its application or non-application may have been, we still need to travel with lifeboats (Beilharz 1994: 211).

The role of 'support' by state intervention for certain desired economic outcomes has been shown to be part and parcel of market exchange (Barbalet 2001, 1998). The 'lifeboats' analogy is similar to the emotional-support mechanisms for local and localised businesses, which ensure that they act in a desirable way by creating confidence at sufficient levels for continued inward investment. If the busi-

ness community feels reassured and confident that the government will act in a ‘responsible’ way, then certain levels of investment activity may eventuate.

The Pappas Carter Evan Koop Report, *The Global Challenge: Australian Manufacturing in the 1990s* (1990), published a year after The Garnaut Report, *Australia and the Northeast Asian Ascendancy*, argues against removing industry protections and tariffs without first installing a comprehensive national industry policy. This is not a blueprint of new style of protectionism, but a defence of state intervention informed by the belief that ‘[n]o modern country of significant size has maintained a vital economy without a strong industrial base that includes at least some tradeable ETM [elaborately transformed manufacturing] industries’ (AMC 1990: v). When the Australian Council of Trade Unions (ACTU) engaged with the issue of the manufacturing, in *Australia Reconstructed*, it suggested that the government intervene in the labour market to speed up the transfer of skills and workers from declining industries to those that were expanding (ACTU-TDC 1987: chapters 1 and 2). For the ACTU, the problem is seen mainly in terms of labour market restructuring and re-skilling and not as an issue of the broader industrial base of the nation. The governance of the Australian market after the 1980s followed a vision of the industrial base as being free of government intervention, but in reality government continuously finances industry assistance schemes.

The manufacturing sector contains ‘smart’ jobs with skills that are beneficial to the entire domestic market. Such jobs bring higher amounts of payroll and income tax to the government treasury. As the manufacturing sector declines, so does the related job market. The end result is a rise in the numbers of skilled people who cannot find work to utilise their abilities, and eventually a decline in the number of skilled jobs leading to a shortage of trained people down the line (Weller and Webber 2001: 160-195). Inevitably, the decline in manufacturing jobs has affected vocational training and skills in the labour market in the early 2000s. Australia began to suffer a shortage of skilled manufacturing people ‘in the positions of tool-makers, metal fabricators, motor mechanics, electricians, refrigeration mechanics and plumbers’, at levels that could threaten ‘to hold back economic growth’ (Maiden 2003: 4).

Skills training is a form of social spending that creates value in the labour market and which is appropriated by private investors. Toner argues that MNEs that invest in Australia expect to find a labour market which has been trained by publicly funded vocational education (Toner 2004: 29). However, public funding of education in Australia has been suffering a decline as a result of neo-liberalism. Hence, the lack of skills in the labour market is an outcome of the dominant economic orthodoxy. This is a neo-liberal dilemma. While neo-liberalism argues that public spending crowds out private investment, it actually feeds that investment. Neo-liberal market governance discourages the kinds of productive economic activities that are central to employment and income growth (Grabel 2002: 39). Instead it encourages speculative economic activity which leaves fewer funds available for the manufacturing sector, which is the sector that creates (high skill) jobs and enhances growth (Stiglitz 2002: 101).

The rise of neo-liberal market policies in Australia has not meant an end to all the industry-assistance programs. The small size of the Australian economy which does not allow large economies of scale, and dated technology in the manufacturing sector and reduced profits in protected sectors, meant that there would be a reorientation towards protection of manufacturing industries in the 1990s (Fagan and Webber 1999: 146). This explains why the Labor governments that preceded the first Howard Coalition government were running industry-assistance programs while professing to toe the neo-liberal non-intervention line. From the first Howard Coalition government onwards, however, there were reductions in such programs. The post-war history of industry-assistance schemes defies any analysis that seeks a clear pattern (Jones 2000, 2002).

Tariffs and trade

The value of industry assistance in 2008-2009 was approximately A\$17.2 billion in gross terms and A\$9 billion in net terms (Productivity Commission 2010: *xii*). This large outlay shows the extent of the state's direct intervention in the market. 'Total (gross) tariff assistance' to industry in 2008-2009 (see Tariff Schedule 1) was A\$9.5 billion. 'Net Tariff Assistance' to Australian manufacturing in the same period was A\$6.5 billion (see Tariff Schedule 2). The manufacturing sector is the major beneficiary of tariff assistance and the automotive industry is the biggest segment of the manufacturing sector.

Tariff Schedule 1: Total (Gross) Tariff Assistance to Australian Industry (A\$ Billion)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
7.6	8.3	8.7	8.5	8.2	9.1	8.3	9.5

Data Source: Productivity Commission (2010, 2007).

Tariff Schedule 1 data refers to the entire industrial base of the Australian economy, including manufacturing. Apart from tariff assistance, industry also receives budgetary, pricing and regulatory types of assistance. These are combined under 'combined assistance' tables in the Productivity Commission publications.

Tariff Schedule 2: Net Tariff Assistance to Australian Manufacturing (A\$ Billion)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
4.5	4.9	5.4	5.1	5.2	5.8	5.8	6.5

Data Source: Compiled from Productivity Commission (2010, 2007).

Assistance Schedule 1: Total (Estimated) Budgetary Assistance to Australian Manufacturing (A\$ Billion)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2.0	1.8	1.9	1.8	1.8	1.8	1.8	1.8

Data Source: Compiled from Productivity Commission (2010, 2009).

Tariff Schedule 3: Net Tariff Assistance to Australian Auto Industry (A\$ Billion)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
0.63	0.70	0.80	0.60	0.54	0.63	0.64	1.0

Data Source: Compiled from Productivity Commission (2010, 2007).

Tariff Schedule 2 data refers to the whole of the manufacturing sector, including auto industry. Tariff Schedule 1 figures on the other hand are for the entire industrial sector of the Australian economy, which contains the manufacturing sector. Budgetary assistance to manufacturing is smaller than tariff assistance if one compares Tariff Schedule 2 with Assistance Schedule 1 (This data refers to the whole of the manufacturing sector, including auto industry). Tariff protection is the main support mechanism for the manufacturing base of Australia. Net tariff assistance to the auto industry, which is discussed below in detail, is governed by the Automotive Competitiveness and Investment Scheme. Tariff Schedule 3 shows the levels of net tariff assistance to the auto manufacturing sector. This data is only for 'motor vehicles and parts' and does not include 'other transport equipment' (see Productivity Commission 2007: 2.4-2.5). Tariff Schedule 4 shows the 1990-2010 tariff reductions for the auto industry in Australia.

Tariff Schedule 4: Auto Industry Tariff Rate Reductions 1990-2010 (%)

Year	Tariff percentage
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1990	40
1991	37.5
1992	35
1993	32.5
1994	30
1995	27.5
1996	25
1997	22.5
1998	20
1999	17.5
2000	15
2005	10
2010	5

Data Source: Compiled from Productivity Commission (2002a), Department of Innovation, Industry, Science and Research (2009).

Assistance Schedule 2: Combined Assistance to Australian Auto Industry (A\$ Billion)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1.4	1.4	1.5	1.3	1.2	1.3	1.3	1.6

Data Source: Compiled from Productivity Commission (2010, 2009).

Assistance Schedule 3: Rate of Combined Assistance to Australian Auto Industry and Manufacturing (%)

Year	Motor vehicles and parts	All manufacturing
1993-94	38	10
1994-95	35	9
1995-96	31	8
1996-97	28	6
1997-98	19	5
1998-99	19	5
1999-00	19	5
2000-01	19	5
2001-02	18	5
2002-03	16	5
2003-04	16	5
2004-05	15	5
2005-06	13	5
2006-07	12.1	4.5
2007-08	12	4.6
2008-09	11.8	4.6

Data source: Compiled from Productivity Commission (2010, 2007) and Productivity Commission (1999).

Industry assistance, as defined above, does not solely consist of tariff protection and Assistance Schedule 1 shows the levels of budgetary assistance payments to the manufacturing sector. The official definition of ‘combined assistance’ includes budgetary, tariff and agricultural (where applicable) pricing and regulatory assistance (Productivity Commission 2007: 2.18). That means an industry sector is assisted through direct financing of support schemes plus by tariff protection of the domestic market. Combined assistance levels (which include ‘net tariff assistance’ figures in their calculation)

for the auto industry are shown in Assistance Schedule 2. This figure is only for 'motor vehicles and parts' and does not include 'other transport equipment (see Productivity Commission 2007: 2.4-2.5).

Assistance Schedule 3 shows the 'effective rates of assistance' from 1993-1994 onwards (the data of these years are combined from different publications). 'Effective rates of assistance' refers to 'assistance to an activity, net of the effects of tariffs and certain other forms of government intervention which alter the prices of material inputs used by the industry' (Productivity Commission 1999: 60). This data is presented here in order to provide an approximate indication of the level of reduction in the rates of assistance. As displayed in Assistance Schedule 3 'motor vehicles and parts' receive higher rates of assistance than all of manufacturing.

As a result of phased tariff reductions, 'the effective rate of assistance' for the auto industry has been falling continuously. While the Automotive Competitiveness and Investment Scheme started in 2001 as a program of assistance to auto manufacturers, Assistance Schedule 3 shows that the rate of assistance has actually been declining since the Scheme's inception. Later there is further discussion on this topic along with a discussion about the four car manufacturers in Australia. The paper will now consider a particular outcome of the above presented history of tariff and assistance reductions. This outcome is the increasing trade deficit that Australia has been having in elaborately transformed manufactures. The volumes of these items that Australia produces and exports are increasingly lower than what is imported into the country and the paper will present the related figures below.

Manufacturing in Australia, even in its present reduced state, contributes more to the economy than any other sector (see ABS 8221.0 2006: 8-15). However, historically the numerous industry policies that have been in place have never covered all the sectors that need such assistance packages (Weiss 1998: 63). For small-sized manufacturers, for example, the tariff-reduction policies have been a sore point for many decades, as cheap imports continue to undercut local prices (Dabrowski 2003: 34). Small and medium-sized manufacturers have been allowed to wither.

The process experienced by Australian industries under neo-liberal governance can be described as 'deindustrialisation and long-term structural decline' (Lucarelli 2003: 99). Grabel argues that deindustrialisation is one of the outcomes of neo-liberal market governance, whereby the manufacturing sector, unable to yield the rate of profit that other sectors can, does not attract sufficient investment. Neo-liberal market governance promotes investment in financial markets rather than in a production-led economy. As a result 'productive activities like manufacturing or infrastructure projects simply cannot compete because they rarely offer the opportunity for massive capital gain that is associated with speculative projects' (Grabel 2002: 38).

The neo-liberal rule of the past three decades, first with the Hawke and Keating governments, and then the successive Coalition governments since 1996, has removed many of the industry support mechanisms of the previous governments (AMWU 2003b: 36). One of the exceptions to this has been the auto and auto-parts manufacturing industry which, despite the decrease in tariff protection from imports, has also been assisted by government spending. As Jones argues, industry policies under Howard continued to contain contradictory tendencies (Jones 2000: 60-70). The obvious example of this is the fact that the Automotive Competitiveness and Investment Scheme (ACIS) was funded from tariffs on car and car parts imports (Marris 2002: 4). Tariff duties are used to prop up an industry that is under threat of further decline as a result of the continuance of the tariff removal policies. From 2010 onwards, the ACIS has been replaced with a new scheme the Global Automotive Transition Scheme [GATS] which complements the Green Car Innovation Fund (Review of Australia's Automotive Industry Final Report 2008: 98). However this is outside the present discussion. ACIS shored up, in the larger context of tariff reduction policies, the largest manufacturing sector in Australia, one that employs thousands and contributes to the nation's skill, education and technology base. Similar funding programs have previously existed under different assistance schemes. However, the sector continued to decline even after the introduction of the above scheme.

MMAL announced in May 2004 that its South Australia engine plant would close, and declared that the remaining sole assembly plant may also face the same fate eventually. The company was tied to Daimler Chrysler at the time. Daimler Chrysler structure dissolved in October 2007. Daimler Chrysler used to own 37 per cent of Mitsubishi in Australia (see *The Japan Times* 2000: 14). After 2001, Mitsubishi Motor Corporation held 100 per cent of issued share capital of Mitsubishi Motors Limited Australia. Under the policy framework of the time, the federal government was planning to have reduced auto import tariffs to 10 per cent by January 2005. So, the company was unwilling to wait to see the effects of the tariff reduction. It scaled down its investment. Then in March 2008 it shut down the remaining manufacturing operation. Hence, the sector continues to shrink.

Mitsubishi cited the continuing rise in the value of the A\$ as one of the reasons for its decision to abandon production in Australia (ABC Midday News 2008). Since the term of the first Howard Coalition government, industry assistance and protection in the Australian market have been argued to be insufficient. This was a point of debate in the months that led to the 2007 federal election. In the period leading up to the 2007 federal election, the policy platform of Labor included plans for public investment in the manufacturing sector, in heavy industry high-volume job creation areas such as shipbuilding. The Howard Coalition government of the time called this Labor policy platform industry ‘protectionist’ which is a reference to the post-World War II period industry policy in Australia. The continuing resources boom fuelled by Chinese demand dampened the issue in the period leading to the 2010 federal election.

The marginalisation of the Australian manufacturing base forms a long drawn-out trend that is not limited to the 1996-2007 Coalition governments. Inter-party conflicts on tariffs and trade policies from the 1950s to the 1970s were replaced by bi-partisan support for neo-liberalism from the 1980s onwards among political and bureaucratic elites. The 1983-1996 Labor governments tried to run neo-liberalism concurrently with compensatory politics (Beeson and Bell 2000: 312). However the electoral shift away from Labor removed deficit-funded ‘welfare, labour-market and industry policies’ (Weiss 1998: 191), and industry-assistance schemes began to be wound down. This was the Howard Coalition period. The end result has been a decrease in ETM exports. In the period set out in Table 1, Table 1.1 and Table 1.2 it is possible to see the effects of the reduction in state intervention (under the Howard Coalition government) in the form of industry-assistance spending and tariff protection. There is a correlation between government intervention in the market and the manufacture and export of ETMs (AMWU 2003b: 36).

The above statistics for tariff reductions coincide with the deficit figures for elaborately transformed manufactures. Australia’s manufacture trade [‘total manufactures’] has two components: STMs (simply transformed manufactures) and ETMs. The five year trend (2002-2003 to 2005-2006) in ‘total manufactures’ trade between Australia and the rest of the world is an increase of 24 per cent in deficit (DFAT 2007: 12). Within that deficit the ETM deficit is the largest part. The simple reason for this is that ETMs are high-value added products and hence cost more and when there is a trade deficit, the fluctuations in the value of A\$ can add an extra burden to the economy. Hence, the ETM trade deficit between Australia and the rest of the world has also been increasing. In the 1995-1996 to 2001-2002 period, the deficit had increased by 54 per cent (see Table 1). From 1995-1996 to 2005-2006 the increase was 125 per cent (see Table 1.1). From 1995-1996 to 2008-2009 the increase was 179 per cent (see Table 1.2). Neo-liberal market policy of the last several decades coincide with a consistent increase in ETM exports. With an increase of 888 per cent the ETM deficit with China is the largest. (Here the calculations are made from the 1995-1996 base. It is also possible to discuss these figures on a periodic basis instead of using the same base figure).

Table 1: Australia’s Deficit in ETM Trade 1995-1996 to 2001-2002

Market*	% Increase 1995-1996 to 2001-2002	% Distribution of deficit 2001-2002
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World	54	100
EU	40	29
Japan	48	21
USA	2	21
China	188	15
Others**	852	14

Data Source: Compiled from DFAT (2002 and 2007). *In the order of the percentage distribution of deficit.
**The rest of the world combined.

Table 1.1: Australia's Deficit in ETM Trade 1995-1996 to 2005-2006

Market*	% Increase 1995-1996 to 2005-2006	% Distribution of deficit 2005-2006
World	125	100
EU	102	29
China	500	21
USA	16	16
Japan	63	16
Others**	527	18

Data Source: Compiled from DFAT (2002 and 2007). *In the order of the percentage distribution of deficit.
**The rest of the world combined.

Table 1.2: Australia's Deficit in ETM Trade 1995-1996 to 2008-2009

Market*	% Increase 1995-1996 to 2008-2009	% Distribution of deficit 2008-2009
World	179	100
EU	140	28
China	888	28
USA	24	14
Japan	59	13
Others**	688	18

Data Source: Compiled from DFAT (2002 and 2010b). *In the order of the percentage distribution of deficit.
**The rest of the world combined.

The fact that ETM manufactures that have been supported by industry-assistance programs have higher export potential undermines the neo-liberal argument that non-intervention in the market creates efficiencies and increases manufacture exports (Sheehan et al. 1994: chapters 1 and 2). In the period from 1995-1996 to 2007-2008 the decline in Australia's manufacturing trade performance is, in many respects, specifically the direct results of the 1996-2007 Howard Coalition governments' lack of comprehensive strategic plan for manufacturing, and their dismantling of much of the industry policy mechanisms that existed in the 1990s (AMWU 2003b: 36). Without such schemes it has not been possible to sustain the same level of manufactures. Further, as the auto manufacturers also pointed out in 2006 the support mechanisms for the sector did not make up for the shortfall from the tariff reduction and the rising Australian dollar (Bayari 2008).

As Barbalet argues from a Keynesian position, 'it is not market opportunities which determine investment choice. The business community's relationship with the political state is a primary source of confidence, which informs expectations regarding future returns on current expenditure' (Barbalet 1998: 36). The AMWU submission to the federal government inquiry into Australia's trade links summarised the post-1996 developments in manufacturing policy as follows:

The R&D tax concession has been slashed and investment by manufacturers in R&D has fallen ... There is no strategy or action plan to attract new greenfield investment

in high-value manufacturing, particularly FDI. Not surprisingly, Australia ranks near the bottom of OECD countries in attracting such investments ... The Export Market Development Grants Scheme has been emasculated and is capped at an unrealistic level and additional requests for funding ... ignored ... None of the initiatives to promote venture capital have resulted in significantly lifting new investment in start-up manufacturing firms ... But follow-up action has not progressed past 'Memorandums of Understanding' and Ministerial speeches ... Simply put none of the things that were required to underpin the 1985-95 manufactures export surge have been done (AMWU 2003b: 36).

The Howard Coalition government's reluctance to continue the previous Labor-style market interventions, the submission argued, had an obvious detrimental effect, because Australia has not moved up into a high-value manufacture exporting type of economy. This reality is in stark contrast to the vision that was offered by The Garnaut Report (1989) that set Australia on the path of neo-liberal deregulation. From 1992 to 2006, a period which spans both the Labor and the Coalition governments, there is a clear trend of decline for some sectors. Under the Howard administration net exports made a positive contribution to economic growth in just 2 of the last 11 years and that in the last 5 years, despite the resources boom, export volumes have increased by just 2.9 per cent annually (Simon Crean Press Release 2007). What has been declining is the GDP share of manufacturing, while it is the service sector that has been on the increase (see Table 2). (The composition of GDP in terms of 'current prices and gross value added' goes back as far as June 1990, see ABS 5204.0 2004).

Manufacturing is a sector that is essential for a relatively independent economy. Yet, when added together, the sum total of 'finance and insurance', 'property and business services' and 'ownership of dwellings' surpasses the share of 'manufacturing' by several-fold. According to these figures, ETMs have formed an ever-diminishing share of overall manufactures, and Australia has suffered increasingly larger trade deficits in ETMs in this period. As ETMs are produced at home on an ever-decreasing scale, imports inevitably rise with demand. In Table 2, in the larger context of the national economy, the fact is that the largest 'real industry gross value added average annual growth rate' is in 'communication services' and 'finance and insurance'. This type of growth is frequently referred to as 'predominantly consumption-based' growth (Wade 2004: 17). That is, the 'manufacturing growth' rate (including that of ETMs) in the period under consideration was approximately half of the growth rate of gross domestic product.

It should be noted that in the course of the collection of this data in the period under consideration, the definitions of full-time employment have undergone changes. For example, in the 1980s working 18 hours a week did not count as being in full-time employment but now it does. This may have affected the ABS calculations. See Carson et al. (1998) for a critique of the calculation and the use of the statistics.

As shown in Table 2 the contribution the manufacturing sector makes to gross domestic product has fallen while the shares of mining, finance & insurance, property & business services sectors have all increased. (These figures are for the composition of GDP on an annual basis and are not related to the annual growth rates of the components of the GDP). The decline in the contribution that the manufacturing sector makes to gross domestic product is also accompanied by a decline in manufacturing employment, as seen in Table 3. Table 3 also shows that here has been a rise in 'property and business services' and other service sector employment. The employment levels in 'agriculture, forestry and fishing', 'whole trade' and 'retail trade' have all fallen.

Table 2: The Change in the Composition of Australian GDP (%)

Industry	1990	2009

Agriculture, forestry and fishing	5.1	2.6
Mining	4.8	7.7
Manufacturing	14.5	9.4
Electricity, gas and water supply	3.5	2.5
Construction	7.1	7.4
Wholesale trade	5.9	4.9
Retail trade	5.8	4.7
Accommodation, cafes and restaurants	1.9	2.5
Transport and storage	5.9	5.8
Communication services	2.6	3.4
Finance and insurance	5.5	10.8
Property and business services	9.9	11.8
Government	4.3	5.3
Education	4.6	4.3
Health and community services	5.7	6.1
Cultural and recreational services	1.7	0.9
Personal and other services	2.0	2.0
Ownership of dwellings	9.3	8.0
TOTAL	100	100

Data Source: Compiled from ABS 5204.0 (2010).

Table 3: Labour Market Share of Industrial Sectors (%)

Industry	1990	2009
Agriculture, Forestry and Fishing	5.5	3.3
Mining	1.1	1.6
Manufacturing	14.4	9.1
Electricity, Gas and Water Supply	1.3	1.2
Construction	6.9	9.0
Wholesale Trade	6.4	4.0
Retail Trade	14.1	10.8
Accommodation, Cafes and Restaurants	4.6	6.8
Transport and Storage	4.9	5.1
Communication Services	1.8	1.9
Finance and Insurance	4.4	3.7
Property and Business Services	8.0	12.9
Government	4.4	6.2
Education	6.8	7.6
Health and Community Services	9.2	11.0
Cultural and Recreational Services	2.2	1.8
Personal and Other Services	3.7	4.1
TOTAL	100	100

Data Source: Compiled from ABS 6202.0 (1986-2003), ABS 6291.0 (2010).

ETM trade with Japan and trade volumes

Economic relations with Japan have been covered previously elsewhere (Bayari 2011, 2010, 2008). The following brief discussion highlights the decline of trade volumes in ETMs in trade with Japan. Australia's deficit in ETM trade with Japan increased 59 per cent from 1995-1996 to 2008-2009 (see Table 1.2). Therefore it appears that there is a trend of increasing deficit. It may be that Australia is not in a position to respond to demand from Japan. It is also clear that Australia's total ETM exports are declining, as discussed above. When the total export and import figures are considered the picture

of the bilateral trade is one of decline. In 1991-1992 Japan bought 26.5 per cent of Australian exports but the figure was 19.3 per cent in 2008-2009 (see Table 4).

In the same time frame, Japan's share of Australia's imports also fell from 18.2 per cent to 7.3 per cent of the total (see Table 5). This indicates a declining trend in trade relations between the two nations. Japan's resource import needs have been in decline as its manufacturing sector has moved into a higher value-added and more energy-efficient phase. Japan's share of overall Australian exports has been declining (see Table 4). Overall, Japan is still the biggest market of Australian exports and Australia is the third biggest market of Japanese exports. In 2008-2009 Japanese ETM exports to Australia was worth 15,024 A\$ million and Australian ETM exports to Japan was worth \$A454 million (DFAT 2010b: 43, 76).

Table 4: Australia's Export Volumes to Japan (A\$ million)

Year	\$m	Japan's rank as export market	% of total exports
1991-1992	14,574	1	26.5
2005-2006	31,075	1	20.4
2008-2009	55,005	1	19.3

Data Source: Compiled from DFAT (2002, 2006, 2009).

An increasingly smaller percentage of Australia's imports have been coming from Japan with the rise of other export-oriented economies in Asia (see Table 5). The share of Australian exports that go to Japan has also shrunk (Table 4), although Australia's export items have not changed in the last two decades (Table 5.2).

Table 5: Australia's Import Volumes from Japan (A\$ million)

Year	\$m	Japan's rank as import source	% of total imports
1991-1992	9,290	2	18.2
2005-2006	17,334	3	10.3
2008-2009	20,315	3	7.3

Data Source: Compiled from DFAT (2002, 2006, 2009).

Table 6: Australia's Trade Deficit in Manufactured Products 1991-1992 to 2001-2002

Market*	% Increase 1991-1992 to 2001-2002	% Distribution of Deficit in 2001-2002
World	122	100
EU	133	33
USA	59	22
Japan	73	20
China	447	25
Others**	271	10

Data Source: Compiled from DFAT (2002). *In the order of the percentage distribution of deficit. **The rest of the world combined.

Despite the fact that a higher proportion of Australia's exports go to Japan than the proportion of our imports from Japan, there may eventually develop a net trade deficit with Japan (currently such a deficit exists only in manufactured items traded with Japan). There is a structural imbalance in the nature of the bilateral relationship despite Australia's surplus, because of the high value-added nature of Australia's imports from Japan, and the low value-added quality of its exports. This has intensified with Japan's continuous upward movement into higher value-added exports and Australia's continuous reliance on primary exports. Japan increasingly needs less of what Australia exports and Australia

exports increasingly less of what Japan needs to import. Rix identified this trend towards the declining importance of Australia's resources for the Japanese economy in the 1980s, well before the height of the deregulatory market policies (Rix 1984: 95). The extent to which Australia's deficit with Japan rose is small compared with the extent of the rise in the deficit with China. This may be an indication of the increase of cheaper Chinese imports.

Table 6.1: Australia's Trade Deficit in Manufactured Products 1991-1992 to 2005-06

Market*	% Increase 1991-1992 to 2005-06	% Distribution of Deficit in 2005-2006
World	228	100
EU	226	33
China	1065	22
USA	85	20
Japan	89	25
Others**	718	10

Data source: Compiled from DFAT (2007). *In the order of the percentage distribution of deficit. **The rest of the world combined.

Table 6.2: Australia's Trade Deficit in Manufactured Products 1991-1992 to 2008-09

Market*	% Increase 1991-1992 to 2008-09	% Distribution of Deficit in 2008-2009
World	312	100
EU	303	30
China	1800	27
USA	250	26
Japan	162	16
Others**	(171)	1

Data source: Compiled from DFAT (2010b). *In the order of the percentage distribution of deficit. **The rest of the world combined.

Table 6.2 shows the latest situation of Australia in comparison with Japan, the EU and the others. These figures are for the entire manufacturing sector whereas the above ETM figures were for a section (albeit the largest section in net A\$ terms) of the manufacturing industry. That is, The term 'manufactured products' means all that the nation manufactures as tradable merchandise which as a category contains two types of merchandise: 1-simply transformed manufactures, 2-elaborately transformed manufactures. The latter is discussed above in detail in terms of the trade deficit Australia has with the rest of the world in general and Japan in particular. In the last decade there were large rises in the trade deficits in manufactures with all of Australia's trading partners. The largest increase is in trade with China. However, the largest deficits overall were with the EU trading bloc, followed by China, USA and Japan. Table 6.2 shows that in the longer time frame of 1991-1992 to 2008-2009, the manufactured products trade deficit that Australia has with the rest of the world is larger than the deficit in the period from 1991-1992 to 2001-2002. Australia remains a net manufactures importer. Moreover, China appears to be enjoying an increasing trade surplus of manufactured products in their trade with Australia.

This paper has queried whether neo-liberal market governance has increased Australia's manufacturing exports. In the light of these trade deficit figures, it is clear that Australia is not reaching its goal of becoming a high value-added commodities exporting nation, as was hoped by the neo-liberal blueprint of The Garnaut Report, *Australia and the Northeast Asian Ascendancy* (1989). In trade with Japan too, Australia is either standing still or, in the case of ETM exports, rolling backwards. The multilateral trade liberalisation promoted in Australia was supposedly a response to the 'commodity dependence' on food and ore export up until the 1980s, a dependence Australia tried to overcome by

attempting market and product diversification and expansion (*Senate Foreign Affairs, Defence and Trade References Committee* 2000: 88-110). However the results of this 'promotion' process so far do not appear to be encouraging from the point of view of the Australian market which, instead, has been suffering trade deficits. There is a need to investigate this development as part of a wider assessment of government policy on the Australian market to establish whether the current state of market performance (and hence the trade deficit in manufactures) is transitory or more in the nature of the capitalist market that performs at a less than optimum level when government assistance is insufficient.

NOTES:

1-A\$ value calculations are based on current prices (i.e. not inflation adjusted).

2-A\$ values are for financial years (1 July-30 June).

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