

Australia

I. Economic Structure

A Resource-Based Economy



Australia is the world's smallest continent and the last to be discovered and settled by Europeans.

Historically, the Australian economy was based on wool gathered from a huge sheep population and raw materials extracted through mining. Even today, Australia accounts for half the world's production of fine wool, while metals and minerals account for more than a quarter of the country's exports.

Australia's most important domestic industrial activities include wool production, the processing of iron, steel, or refined metals, and food production. Despite this strong resource-based orientation, the country is highly urbanized with more than 80% of the population living in towns and cities and half of it concentrated in Sydney and Melbourne.

Growth in the 1980s

The Australian economy started growing rapidly from the mid 1980s. Driven by a combination of low interest rates and strong consumer demand, real GDP grew by about 4% a year between 1985 and 1989. Strong growth, however, was accompanied by high levels of inflation which exceeded 7% per annum by the end of the decade. To manage the inflationary pressures that arose, the government has cut back spending and adopted policies designed to push interest rates higher.

The Foreign Debt Trap

Australia's rapid growth was supported by an explosion of imports. Both companies and private consumers looked to foreign suppliers to supplement whatever was missing from the domestic economy. As a result, by mid 1989, net foreign debt exceeded \$93.6 billion while the current account deficit for 1988-89 stood at \$16.1 billion. As foreign debt mounted, so too did servicing costs. In 1988-89 interest payments on the foreign debt reached \$9.5 billion.

As it moves into the 1990s, Australia faces significant economic challenges. The national debt has grown, labour costs are high, recessionary trends throughout the OECD have weakened the demand for Australian products, and high interest rates have undermined the position of several major Australian firms forcing dramatic restructuring.

A Technological Gap

The most basic economic challenge facing Australia is to improve the country's technological infrastructure, move to higher value-added activities, and expand technology-based exports. Medium and low technology goods account for the bulk of Australia's exports and they continue to increase. By contrast, high technology-based exports remained flat through the mid 1980s. Another sign of the technology gap is the fact that Australian companies pay more to acquire foreign technology than they receive from the sale of their own know-how. At least here, however, a positive sign is that receipts are growing faster than payments.